

ONE TO ONE



H&R BLOCK

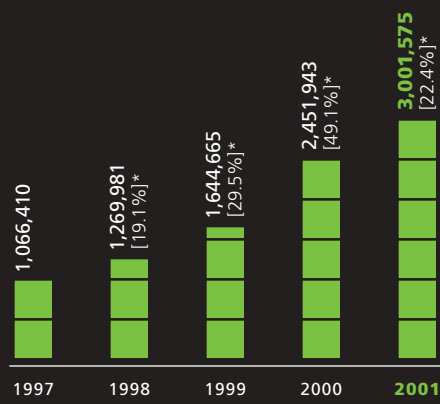
2001 ANNUAL REPORT



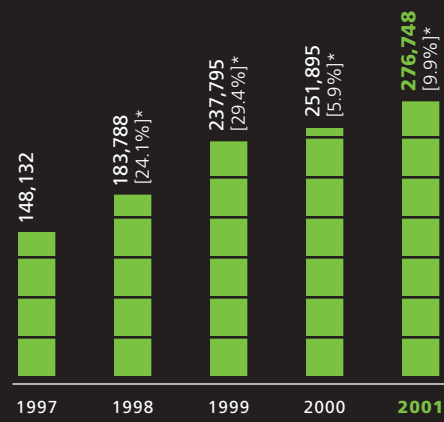
H&R Block, Inc. is a diversified company with subsidiaries providing a wide range of financial services and products. In 2001, H&R Block served 19.2 million taxpayers — more than any tax or accounting firm — through its more than 10,400 offices located in the United States, Canada, Australia and the United Kingdom. H&R Block served another 2.3 million tax clients through its award-winning TaxCut® 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 more than 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.

THE NEW FACE OF H&R BLOCK IS A SYMBOL OF OUR BECOMING A FINANCIAL PARTNER GROUNDED IN ONE-TO-ONE ADVISORY RELATIONSHIPS WITH OUR MILLIONS OF CLIENTS. IN THIS ANNUAL REPORT, SENIOR MANAGERS SPEAK ABOUT THE COMPANY'S PROGRESS IN THE PAST YEAR AND OFFER PERSONAL INSIGHTS ON MAJOR INITIATIVES, CHALLENGES AND OPPORTUNITIES. THE MESSAGE BEHIND OUR NEW IDENTITY IS CLEAR: H&R BLOCK IS THE NEW FACE OF FINANCIAL SERVICES FOR MAINSTREAM AMERICA.

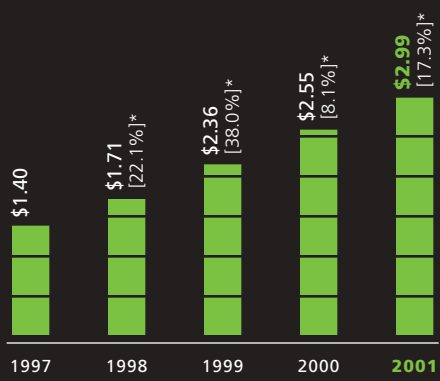
FINANCIAL HIGHLIGHTS



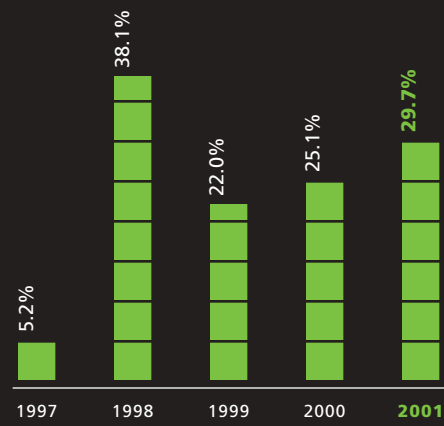
CONSOLIDATED REVENUES**



NET EARNINGS**
from continuing operations



NET EARNINGS PER SHARE
from continuing operations



RETURN ON EQUITY

* Percentage growth from preceding year.

** In thousands of dollars.

SELECTED FINANCIAL DATA

Amounts in thousands, except per share amounts and number of shareholders

April 30	2001	2000	1999	1998	1997
FOR THE YEAR:					
Total revenues	\$ 3,001,575	\$ 2,451,943	\$ 1,644,665	\$ 1,269,981	\$ 1,066,410
Net earnings from continuing operations	\$ 276,748	\$ 251,895	\$ 237,795	\$ 183,788	\$ 148,132
Net earnings	\$ 281,162	\$ 251,895	\$ 215,366	\$ 392,130	\$ 47,755
AT YEAR END:					
Total assets	\$ 4,121,624	\$ 5,712,869	\$ 1,910,176	\$ 2,904,083	\$ 1,707,058
Cash, cash equivalents and marketable securities	\$ 596,396	\$ 681,567	\$ 420,649	\$ 1,590,192	\$ 539,107
Long-term debt	\$ 870,974	\$ 872,396	\$ 249,725	\$ 249,675	\$ -
Stockholders' equity	\$ 1,173,741	\$ 1,218,589	\$ 1,061,987	\$ 1,341,632	\$ 999,097
Shares outstanding	91,804	98,035	97,629	106,981	104,067
Number of shareholders	31,523	33,557	34,624	31,177	33,517
MEASUREMENTS:					
Per basic share of common stock:					
Net earnings from continuing operations	\$ 3.01	\$ 2.57	\$ 2.38	\$ 1.75	\$ 1.42
Net earnings	\$ 3.06	\$ 2.57	\$ 2.16	\$ 3.74	\$.46
Per diluted share of common stock:					
Net earnings from continuing operations	\$ 2.99	\$ 2.55	\$ 2.36	\$ 1.71	\$ 1.40
Net earnings	\$ 3.04	\$ 2.55	\$ 2.14	\$ 3.65	\$.45
Other per share data:					
Cash dividends declared	\$ 1.17½	\$ 1.07½	\$.95	\$.80	\$ 1.04
Net book value	\$ 12.79	\$ 12.43	\$ 10.88	\$ 12.54	\$ 9.60
Return on total revenues	9.2%	10.3%	14.5%	14.5%	13.9%
Return on stockholders' equity	29.7%	25.1%	22.0%	38.1%	5.2%

TO OUR SHAREHOLDERS:

For nearly 50 years, H&R Block has been developing one-to-one relationships with our millions of tax clients. Their numbers give us phenomenal reach, while their trust gives us the opportunity to serve them beyond just tax preparation. It's a unique and powerful opportunity for our company.

Our strategy is to extend our tax relationships to serve as our clients' *tax and financial partner*. That includes meeting more of our clients' needs, providing more services, and offering more choices. By doing this, we will give clients more reasons to do business with H&R Block. We will strengthen our client relationships. We will attract new clients. And we will make a good company even better.

To make this strategy real, we've put capabilities in place and acquired businesses enabling us to provide mortgages and investment products and services. Most importantly, we will provide financial advice to coordinate the entire experience. We've also developed technology-based services and begun expanding the capabilities of our tax professionals. And we're working to align our various businesses so we can serve clients any way they choose. While we certainly have much farther to go, we have taken significant steps toward delivering on our strategy.

Of course, our success depends upon the thousands of H&R Block associates who have made client satisfaction their first priority. There's a new energy running throughout the company as each associate focuses on our mission to become our clients' *tax and financial partner*. This year, we made considerable progress while delivering solid financial results.

REVENUE AND EARNINGS GROWTH. H&R Block reported record earnings for the fiscal year. Diluted net earnings per share rose 19.2 percent to \$3.04, compared with \$2.55 from the prior year. Net earnings increased 11.6 percent to \$281.2 million. Excluding the effects of two, one-time items in the fourth quarter — an additional 5 cents per share related to the adoption of SFAS 133¹ and an 11-cent per share charge related to litigation settlement — earnings per share were \$3.10.

The company's performance as measured by earnings before interest², taxes, depreciation and amortization (EBITDA) improved to \$787.2 million, a gain of 31.6 percent from fiscal year 2000.

Driven by double-digit growth within all of our U.S. business units, revenue increased 22.4 percent to

Mark A. Ernst
President & Chief Executive Officer
upper right corner

Frank L. Salizzoni
Chairman of the Board
lower left corner



ONE VISION

\$3 billion. These results included the first-time, full-year contributions from RSM McGladrey and H&R Block Financial Advisors.

Reflecting the company's strong financial position, we announced a two-for-one split of our common stock effective Aug. 1, 2001. In addition, we increased our quarterly cash dividend 7 percent effective in October 2001.

SOLID TAX RESULTS. With no significant tax law changes and a slowing economy, we anticipated a challenging year in our U.S. tax business. We responded with innovative marketing and strict cost controls. The result was revenues of \$1.7 billion, a 15.6 percent increase over the prior year's \$1.4 billion. Pretax earnings rose 35.5 percent to \$433.5 million, with effective cost management contributing to a 385-basis point year-over-year improvement in the pretax operating margin to 26.2 percent. EBITDA increased to \$507.1 million, or 31.2 percent.

We served 16.9 million U.S. tax clients in our company-owned and franchised offices. And H&R Block remained the undisputed leader in electronic filing with almost 80 percent of our clients choosing to e-file their tax returns this year.

Our marketing efforts attracted clients with more complex tax situations, which helped us increase our average fees. In fact, our new business came disproportionately from clients with more complex needs.

TECHNOLOGY-BASED TAX SOLUTIONS. A critical part of our strategy is integrating online capabilities with our retail tax office network to combine the best of both worlds — the speed and convenience of the Internet with the personal service of a tax professional. The result was three new online services — *Ask a Tax Advisor*, *Professional Review* and *Professional Tax Service* — offering customized tax advice, reviews of self-prepared tax returns, and complete tax preparation. This was an important year in establishing H&R Block's distinct capabilities on the Internet.

Even though we chose a low profile approach to promoting our new online services in their initial year, the number of online registered users rose 117 percent, while unique visitors to hrblock.com nearly doubled to 4.3 million. Most importantly, nearly 80 percent of our online clients were new to H&R Block.

¹ Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities"

² Including interest expense on acquisition debt, investment income and interest allocated to operating business units

The results for our tax software program, TaxCut®, were even better. Total unit sales climbed 82 percent to 2.9 million, driving software revenues up 48 percent to \$58.7 million. Our retail sales grew twice as fast as the market, providing for increased retail market share.

ATTRACTING NEW CLIENTS. While technology-based solutions provided new ways to serve our clients, we also looked for new clients to serve. Our new Employer Solutions program delivered H&R Block tax services as an added employee service to such companies as Sprint, Hewlett Packard, Compaq and US Airways. Our corporate partners offered a unique, competitive benefit to their employees, while we attracted new, targeted clients to the company.

As a further step toward harnessing the opportunities of serving diverse markets, we created a new Latino Advisory Council. The council will help us identify products and services tailored to meet the specific needs of this market. In addition, we're stepping up our associate recruiting among the Latino population.

INTEGRATING OUR SERVICES. Each tax client is also a potential mortgage and financial services client. However, our strong tax client relationships are not our only competitive advantage. We're also in the unique position of working with clients during the one time each year that everyone's attention is certain to be focused on financial matters. Investing for retirement, saving for a child's education, or buying a home are challenges that our clients face and we can help solve.

We're building the skills and credentials of our tax professionals, expanding their roles to offer financial services and refer tax clients to our other services. More than 400 associates earned securities licenses and were able to address their tax clients' investment needs by providing a new level of service and thereby strengthening those critical relationships. We plan to expand the program in the coming year.

Our tax professionals helped many of their clients realize the American Dream through home ownership. During tax season, nearly 30 percent of the retail loans originated by H&R Block Mortgage Corporation were tax client referrals — evidence that our strategy is working.

Clients and tax professionals alike were excited about a new IRA product, offered by H&R Block Financial Advisors, piloted in nearly 1,500 tax offices. The service offered a convenient way for clients



H&R BLOCK
company sto

to minimize their taxes and invest part or all of their tax refund to prepare for their financial future. We're working now to expand our IRA products.

INTERNATIONAL OPERATIONS. We continued to improve our performance, achieving strong results across all of our units. Canada, Australia and the United Kingdom, our three largest markets, each had double-digit increases in local currency in pretax income. We can now begin focusing on growth opportunities as well as developing new products and services to fit the characteristics of each market.

Operating results improved significantly in all three countries this year. While the strength of the U.S. dollar caused reported international revenues to drop 2.4 percent to \$79.6 million, pretax earnings improved 57.7 percent to \$7.7 million.

EXCELLENT MORTGAGE RESULTS. We achieved another year of record results from our mortgage operations, which includes Option One Mortgage Corporation and our retail division, H&R Block Mortgage Corporation. Pretax earnings climbed 57 percent to \$139 million, while revenues increased 17 percent to \$415.8 million. Option One and H&R Block Mortgage had a 14.7 percent increase in loan originations, bringing total loan volume for the year to \$6.5 billion.

Option One enjoys a top-quality reputation, high-service culture, blue-chip partners and efficient operations. These attributes, combined with last year's steps to reduce balance sheet risk, have put us in a very strong position to grow this business. We've seen dramatic growth in our loan servicing portfolio, which reached \$18.2 billion, a 61 percent increase, in fiscal 2001. We think servicing is a great business. It brings good value to our shareholders, gives us a fairly predictable revenue stream, and keeps us in touch with our clients each month.

A CHALLENGING ENVIRONMENT. H&R Block Financial Advisors, like other brokerage firms, suffered from a declining stock market and declining activity by retail investors. In its first full year following the December 1999 acquisition and subsequent re-branding of Olde Discount Corporation, H&R Block Financial Advisors recorded a 69.2 percent drop in pretax earnings to \$12.7 million. Revenues totaled \$472.4 million, compared with \$268.4 million last year, which were higher due to the full 12-month inclusion of Financial Advisors this year.

While disappointing, these results hardly speak to Financial Advisors' real value. It plays a central role in our company's strategy of serving clients' financial needs. We have begun to make strides in product development, the creation of effective cross-selling opportunities, and the incorporation of advice into our business. In the long run, we will create a business that is far less dependent on transaction fees and the impact of stock market volatility.

INTEGRATION AT RSM MCGLADREY. Our national accounting firm, specializing in tax and advisory services for mid-sized businesses, focused on integrating five of our previously acquired accounting firms under RSM McGladrey's brand and management structure. That accomplished, we're now well positioned to concentrate on growth in coming years.

While revenues increased 20.3 percent to \$373.8 million, profitability didn't improve, due primarily to a \$3.5 million first quarter comparative loss resulting from the August 1999 acquisition of RSM McGladrey, which was not included in fiscal 2000 results. But the numbers don't tell the whole story for this business segment.

RSM McGladrey's trusted advisors are increasingly counseling clients on wealth accumulation and transfer, asset management and business succession planning, each of which provides opportunities to offer financial products and services. This parallels our H&R Block tax client strategy, but is tailored to a different market segment. By building its brand, RSM McGladrey is extending our reach to clients who would not normally be attracted to H&R Block.

RSM McGladrey launched a wealth management service for its clients this year, which included an alliance for insurance products. We continued to strengthen our position in the top U.S. markets by acquiring leading accounting firms in New York, Boston and Washington, D.C.

A STRONGER H&R BLOCK TEAM. We cannot underestimate the importance of our associates. Their relationships with clients are at the heart of our business and the core of our strategy. They have demonstrated incredible teamwork in the midst of operational and cultural changes throughout H&R Block, but that's because they believe in our mission. Our associates deserve the credit for the company's success.

Our senior leadership team is also working hard at building a more disciplined, yet growing company. We've supplemented talented H&R Block executives by recruiting leaders who bring a fresh perspective to the business, and we wanted you to hear from just a few of them in this annual report. Jeff Yabuki is now executive vice president in charge of H&R Block tax operations. Frank Cotroneo joined the company last year to become our chief financial officer. And David Byers joined the company in 1999 as chief marketing officer.

We also take this opportunity to say thanks to retired board member Morton Sosland whose advice and wisdom over the past 37 years have been invaluable to the company's success. And although this is a joint letter, the President and CEO wishes to pause for special recognition of the Chairman. Frank Salizzoni has guided this company through some tumultuous times as the former CEO, and he has done it with steady composure and a commitment to laying the foundation for others to build upon. I am personally grateful for his leadership.

LOOKING AHEAD. The uncertainty that surrounds recent tax law changes and new incentives for saving and investing, combined with an unclear direction for interest rates and equity markets, speaks to the strength of our strategy. Such uncertainty creates the need for advice and guidance from a trusted source that understands clients' unique financial situations.

Millions of people want financial success, but don't know where to go for advice. H&R Block has the expertise, the reach and the relationships to become the company Americans turn to as their *tax and financial partner*.



Mark A. Ernst
President and Chief Executive Officer



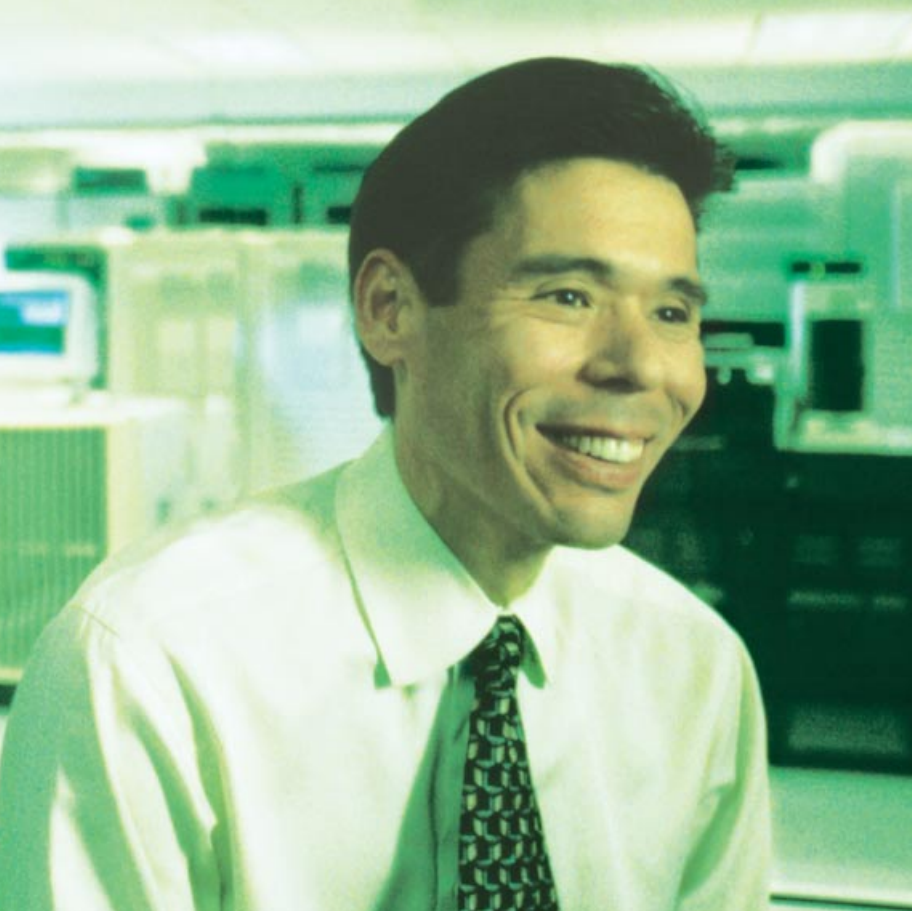
Frank L. Salizzoni
Chairman of the Board

THIS YEAR H&R BLOCK PREPARED **16,442,000** U.S. TAX RETURNS
IN **9,072** OFFICES NATIONWIDE. WE PREPARED AN ADDITIONAL
2,292,000 RETURNS IN OUR **1,378** INTERNATIONAL TAX OFFICES.
WE SERVED **2,267,477** AMERICAN TAXPAYERS WITH OUR ONLINE
TAX SERVICES AND TAXCUT® SOFTWARE PROGRAM. WE E-FILED
14,595,000 FEDERAL RETURNS ACROSS ALL U.S. TAX OPERATIONS.
WE ORIGINATED **60,059** HOME MORTGAGE LOANS, TOTALING
\$6,524,901,000. WE MANAGED **620,000** ACTIVE BROKERAGE
ACCOUNTS AND MADE **2,361,000** CUSTOMER TRADES.

one

CUSTOMER @ A TIME

MANY SOLUTIONS ...
ONE BLOCK



WORKING TO SERVE OUR CLIENTS THE WAY THEY CHOOSE ... ANYTIME, ANYWHERE

Not all of our clients want to walk into an office. Some prefer the convenience and speed of the Internet. Others want a feature-rich software program. And some like the simplicity of a phone call. We want to serve clients the way *they* choose, and this year, we made it easier than ever to do business with us.

Nearly 5 million people visited our Web site and discovered that today's H&R Block is a lot more than tax preparation. It's also a place for year-round advice, financial products and services, and home mortgage products.

We opened up our company to new tax clients by introducing the most comprehensive range of Internet tax tools available. We allowed clients to connect with us anytime, anywhere and get the personal assistance they wanted. Our *Professional Review* service gave do-it-yourself clients the "peace of mind" that a Block professional had reviewed their returns, while *Ask A Tax Advisor* made personalized tax advice just a mouse click away. And clients seeking all the benefits of professional tax preparation combined with Internet convenience chose our online *Professional Tax Service*. They simply completed an online tax organizer, and we did the rest, minimizing their taxes and providing valuable, customized tax service.

Our award-winning TaxCut® software program, rich in options that also included our *Ask a Tax Advisor* service, was extremely popular with clients. And, partnering with another powerful brand, we offered Microsoft® Money to our TaxCut customers, giving them more opportunities to manage their financial lives.

U.S. clients wanting face-to-face service found more than 9,000 tax offices and 180 H&R Block Financial Centers available to meet their tax, financial and mortgage needs. Our more than 85,000 U.S. tax professionals helped 16.9 million clients with one of life's most complex challenges — their tax return. They also offered mortgage and financial assistance, while some even helped tax clients invest their refunds in an IRA. The Financial Centers' year-round, one-stop approach to serving clients enhances the overall client experience and positions H&R Block as the place to go when you need help making financial decisions.

Building on nearly 50 years of client relationships, we're more than a trusted tax partner, we're becoming a financial partner, too. We believe our timing is right — Americans need financial assistance now more than ever. H&R Block is ready to help.

DELIVERING SUPERIOR, SUSTAINABLE FINANCIAL RESULTS TO OUR SHAREHOLDERS

How do you produce record earnings in a challenging environment while strengthening your balance sheet? Focus and teamwork. This year we emphasized expense management, operating efficiency and creating a high-performance culture. The results are in the numbers.

A new initiative called Value³ weaves these goals together. It's about delivering more value to our clients, our shareholders and our associates. It means each associate takes ownership for our company objectives, linking their performance — and their department's performance — strategically with H&R Block's goals. It means consolidating redundant operations, looking for operational efficiencies, and encouraging our associates to challenge the status quo and take innovative approaches to their work.

But smarter business management was just part of the story. Our results were also driven by a mix of business segments, not just our tax operations; from attracting clients with more complex tax returns, not just client growth; and from integrating technology to create a bricks-and-clicks business model. This led to double-digit revenue growth within all of our domestic lines of business in fiscal 2001 and positions us for increased revenue growth in the future.

Another important objective for us this year was to better manage the margins in all of our businesses, particularly in our U.S. tax operations. We attained our goal and saw our U.S. tax margin increase from 22.4 percent last year to 26.2 percent this year. In addition, the pretax margin within our mortgage operations improved to 33.4 percent from 24.9 percent the prior year.

While one of our short-term goals is to make consistently smart business decisions, our long-term goal is to deliver superior and sustainable financial performance. Although we're proud of our results, they mean little if they are not sustainable and don't accrue to shareholders.

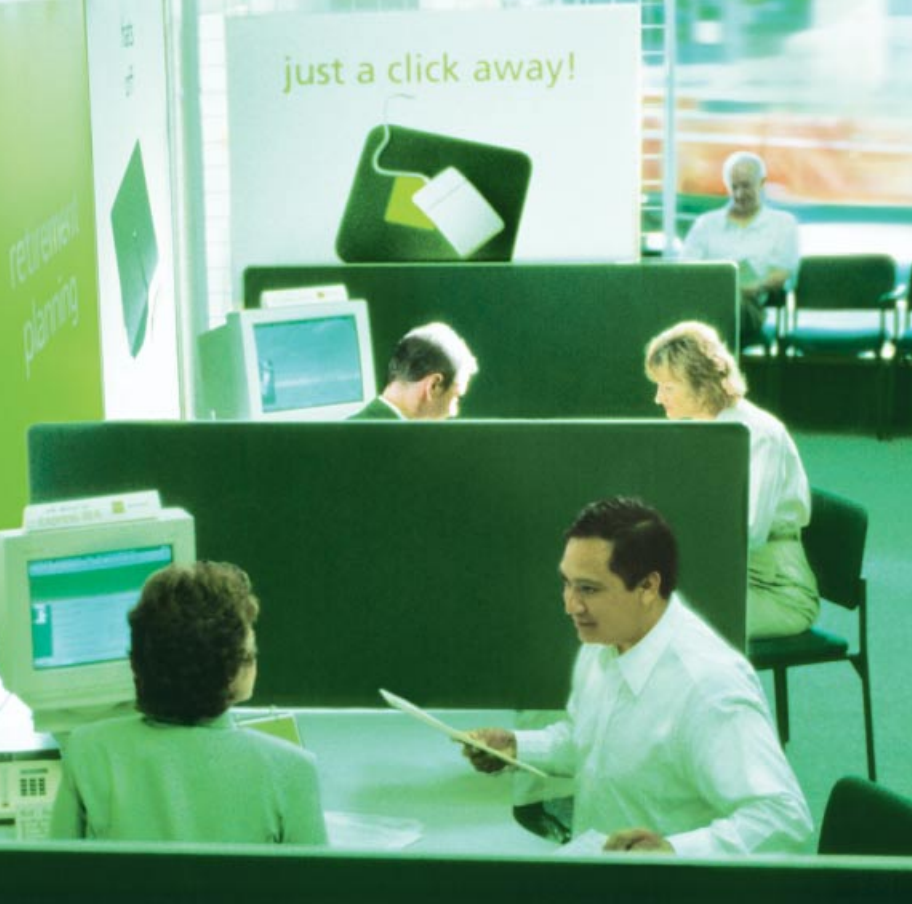
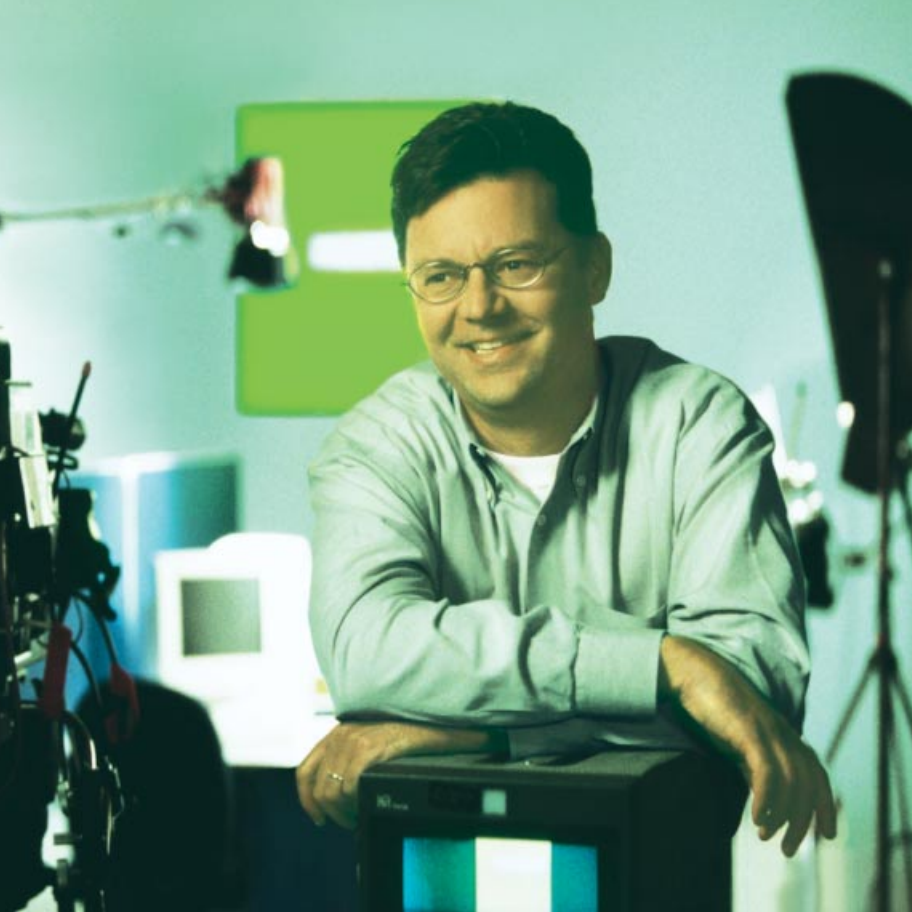
This year we repurchased 6.8 million shares of H&R Block stock within our 12 million repurchase authorization. We are increasing our quarterly cash dividend 7 percent and implementing a two-for-one split of our common stock. A strengthening stock price during a time of general market uncertainty suggests that investors acknowledge the value of our business strategy and recognize our company's strong financial performance and progress in executing it.

Frank J. Cotroneo
Senior Vice President & Chief Financial Officer
lower right corner
photo used with permission of NYSE



ONE FOCUS





NO. 1 BRAND

BUILDING ON MILLIONS OF CLIENT RELATIONSHIPS FROM A FOUNDATION OF TRUST

Behind the striking new H&R Block logo introduced last year is a giant leap forward in leveraging our No. 1 brand and redefining our company in broader financial services terms. Our new brand identity is highly visible — in new signage, new office designs and new marketing materials. But it goes beyond a green block. In reality, it represents a new way of thinking and conveys to consumers a company that's innovative, progressive and dynamic.

The new brand also signals a new, more strategic approach to marketing. We have made enormous strides in using research and market analysis to understand our clients and prospects, which then means we can help drive the business, not just support it. These efforts allow us to invest marketing resources more wisely, react and adjust to market conditions more quickly, and test and roll out programs more effectively. We can better understand the performance of individual programs and offer customized pricing, products and messages to different clients.

Perhaps most visible to the outside world were the new consumer promotions, ranging from high-profile campaigns like *"Who Wants to Be a Tax-Free Millionaire?"* to the Double Check Challenge. Both succeeded in bringing clients to our door.

Partnering with other companies that share similar brand characteristics has become an important part of our overall marketing strategy. In the online area, alliances with more than 50 companies helped bring customers to our Web site this year while also helping to shape our new financial services image.

Awareness and building a brand image are important. But a still bigger step for us is delivering on the promise of our brand, which involves the whole customer experience and how we treat our clients. We can't hold ourselves out as a trusted partner and then fail the test. It may be only a small shift in mindset, but we recognize how critical it is to our future.

The thing we stress to our associates is that we're all stewards of the H&R Block brand. The name didn't achieve its equity through a lot of marketing hype. It did so because the people of H&R Block built advisory relationships that earned our clients' trust. And as we become our clients' financial partner, trust will continue to be the essence of our brand.

David F. Byers

Senior Vice President & Chief Marketing Officer

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GENERAL**OVERVIEW OF REPORTABLE OPERATING SEGMENTS**

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

U.S. tax operations: This segment primarily consists of the Company's traditional tax business – which served 16.9 million taxpayers in fiscal year 2001, more than any other company. This segment is primarily engaged in providing tax return preparation, filing, and related services in the United States. Tax-related service revenues include fees from company-owned tax offices and royalties from franchised offices. This segment also participates in the refund anticipation loan products offered by a third-party lending institution to tax clients. This segment includes the Company's tax preparation software – Kiplinger TaxCut® from H&R Block, other personal productivity software, online tax preparation through a tax preparer (whereby the client fills out an online tax organizer and sends it to a tax preparer for preparation), online do-it-yourself-tax preparation, online professional tax review and online tax advice through the hrblock.com website.

International tax operations: This segment is primarily engaged in providing local tax return preparation, filing and related services in Canada, Australia and the United Kingdom. In addition, there are franchise offices in 9 countries that prepare U.S. tax returns for U.S. citizens living abroad. This segment served 2.3 million taxpayers in fiscal 2001. Tax-related service revenues include fees from company-owned tax offices and royalties from franchised offices.

Mortgage operations: This segment is primarily engaged in the origination, servicing, and sale of nonconforming and conforming mortgage loans. 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 H&R Block Financial Centers and H&R Block Mortgage Corporation retail offices.

Investment services: This segment is primarily engaged in offering full service investment advice through H&R Block Financial Advisors, Inc., a full-service discount securities broker. Financial planning and investment advice are offered through H&R Block Financial Centers, H&R Block Financial Advisors offices and tax offices, and stocks, bonds, mutual funds and other products and securities are offered through a nationwide network of registered representatives, at the same locations.

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

RESULTS OF OPERATIONS**NEW ACCOUNTING STANDARDS**

In the fourth quarter of fiscal 2001, the Company elected the early adoption of 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 establish 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 Company has identified derivative instruments related to certain of its commitments to originate residential mortgage loans.

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 \$252.6 million. The transition adjustment for adoption of SFAS 133 and SFAS 138 of \$4.4 million, 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.

Currently, there are ongoing discussions surrounding the implementation of SFAS 133 by the Financial Accounting Standards Board's Derivative Implementation Group. If the definition of derivative instruments is altered, this change may impact the Company's transition amounts and subsequent reported operating results.

In December 1999, the Securities and Exchange Commission ("SEC") issued SEC Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements" ("SAB 101"). SAB 101 summarizes certain of the SEC's views in applying generally accepted accounting principles to

revenue recognition in financial statements. The Company implemented SAB 101 in the fourth quarter of fiscal 2001. The implementation of SAB 101 had no impact on annual revenues and earnings, however, due to the seasonal influences of the business, the implementation resulted in a shift of revenues and earnings between the Company's third and fourth quarters. As a result, the Company has adjusted its third quarter of fiscal year 2001 to lower revenues and net earnings to \$656.0 million and \$4.5 million, respectively, included in Quarterly Financial Data in the notes to consolidated financial statements.

In fiscal year 2001, the Company adopted Statement of Financial Accounting Standards No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" ("SFAS 140"). SFAS 140 is a replacement of Statement of Financial Standards No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" ("SFAS 125"). SFAS 140 revises the standards for accounting for securitizations and other transfers of financial assets and collateral and requires certain new disclosures, but carries over most of the SFAS 125 provisions without reconsideration. The adoption of SFAS 140 had no effect on the consolidated financial statements.

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

All amounts in the following tables are in thousands.

FISCAL 2001 COMPARED TO FISCAL 2000

CONSOLIDATED H&R BLOCK, INC.	Year Ended April 30		Variance Better (worse) than	
	2001	2000	\$	%
Revenues	\$ 3,001,575	\$ 2,451,943	\$ 549,632	22.4%
Pretax earnings	473,078	412,266	60,812	14.8%
Net earnings	\$ 281,162	\$ 251,895	\$ 29,267	11.6%

Consolidated revenues for the year increased 22.4% to \$3.0 billion compared to \$2.5 billion in the prior year due primarily to U.S. tax operations, Mortgage operations and Investment services. The increase related to Investments 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 last year due to better 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.

Net earnings increased 11.6% to \$281.2 million, or \$3.04 per diluted share, from \$251.9 million, or \$2.55 per diluted share in fiscal 2000. The Company's fiscal 2001 results include two one-time items — the implementation of SFAS 133, an additional \$.05 per diluted share, and an accrual for settlement of litigation brought against the Company, a reduction of \$.11 per diluted share. Excluding the effects of these one-time items, diluted earnings per share was \$3.10, a 21.6% increase over fiscal 2000.

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

The Company's performance as measured by earnings before interest (including interest expense on acquisition debt, investment income and interest allocated to operating business units), taxes, depreciation and amortization ("EBITDA") improved \$189.2 million to \$787.2 million compared to \$598.0 million in the prior year. EBITDA is utilized by management to evaluate the performance of its operating segments because many of its segments reflect substantial amortization of acquired intangible assets and goodwill resulting from recent acquisitions. Management believes EBITDA is a good measure of cash flow generation because the Company has not historically been capital intensive and it also removes the effects of purchase accounting. The calculation may not be comparable to the calculation of EBITDA by other companies.

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 and goodwill. The pretax amortization expense of acquired intangible assets and goodwill increased 57.2% in fiscal 2001 to \$104.3 million from \$66.3 million in fiscal 2000. Net earnings from continuing operations before change in accounting

principle, excluding the after-tax impact of this expense, was \$362.2 million, or \$3.91 per diluted share in 2001, compared to \$304.4 million, or \$3.08 per diluted share in the prior year, increases of 19.0% and 26.9%, respectively.

An analysis of operations by reportable operating segment follows.

U.S. TAX OPERATIONS	Year Ended April 30		Variance Better (worse) than	
	2001	2000	\$	%
Tax preparation and related fees	\$ 1,254,494	\$ 1,128,891	\$ 125,603	11.1%
Royalties	141,258	128,870	12,388	9.6%
RAL participation fees	133,710	89,761	43,949	49.0%
Software sales	58,676	39,546	19,130	48.4%
Other	65,985	44,017	21,968	49.9%
Total revenues	1,654,123	1,431,085	223,038	15.6%
Compensation & benefits	612,538	550,287	(62,251)	-11.3%
Occupancy & equipment	187,328	180,110	(7,218)	-4.0%
Depreciation & amortization	70,383	66,522	(3,861)	-5.8%
Cost of software sales	34,286	22,430	(11,856)	-52.9%
Bad debt expense	55,394	32,541	(22,853)	-70.2%
Marketing & advertising	92,012	96,922	4,910	5.1%
Other	168,668	162,281	(6,387)	-3.9%
Total expenses	1,220,609	1,111,093	(109,516)	-9.9%
Pretax earnings	\$ 433,514	\$ 319,992	\$ 113,522	35.5%

Revenues increased 15.6% to \$1.7 billion for the year ended April 30, 2001. The increase is primarily attributable to higher tax preparation and related fees that are primarily the result of increases in the average fees per client. The increase in the average fees per client in tax offices is due to a planned price increase, a shift in our customer mix to those with more complex returns and the reduction of price discounting at the point of sale. The average fee per client served increased 11.4% to \$118.17. The number of clients served in company-owned operations increased 3.8% to 11.7 million due almost entirely to e-commerce clients. In addition, the number of tax returns filed electronically increased 8.7% in company-owned operations, resulting in the electronic filing of 84.4% of all returns processed in company-owned operations. Revenues from participations in Refund Anticipation Loans ("RALs") increased \$43.9 million over the prior year. This increase is a result of both increases in the average revenue per RAL of 43.9% and the number of RALs of 2.7%. The Company participates with Household Tax Masters in offering RALs to customers through tax offices (49.9% in company-owned offices and 25% in major franchise offices). Revenue from participation interests is calculated as our percentage participation times the fee that the customer pays for the RAL. The fee that the customer pays for the RAL is set by Household Tax Masters and is based on the dollar amount of the RAL. The increase in pricing is due to adjustments made to offset the increased risk of bad debt resulting from the IRS's heightened review of returns containing earned income tax credits. Also contributing to the increase in revenues were software sales, which increased 48.4% 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. In addition, royalties increased 9.6% to \$141.3 million due to pricing increases and a .2% increase in clients served by franchises.

Pretax earnings increased 35.5% to \$433.5 million compared to \$320.0 million last year. 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 26.2% compared to 22.4% in the prior year. EBITDA increased 31.2% to \$507.1 million in fiscal 2001.

	Year Ended April 30		Variance Better (worse) than	
	2001	2000	\$	%
INTERNATIONAL TAX OPERATIONS				
Canada	\$ 57,174	\$ 61,102	\$ (3,928)	-6.4%
Australia	17,939	17,573	366	2.1%
United Kingdom	1,763	1,595	168	10.5%
Overseas franchises	2,692	1,248	1,444	115.7%
Total revenues	79,568	81,518	(1,950)	-2.4%
Canada	4,962	3,291	1,671	50.8%
Australia	3,472	3,189	283	8.9%
United Kingdom	(1,602)	(1,958)	356	18.2%
Overseas franchises	846	347	499	143.8%
Pretax earnings	\$ 7,678	\$ 4,869	\$ 2,809	57.7%

International revenues decreased by 2.4% to \$79.6 million from \$81.5 million last year. 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 57.7% to \$7.7 million from \$4.9 million last year 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 franchises 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 this year.

International tax operations' EBITDA improved 22.4% to \$12.7 million in fiscal year 2001.

	Year Ended April 30		Variance Better (worse) than	
	2001	2000	\$	%
MORTGAGE OPERATIONS				
Interest income	\$ 47,715	\$ 92,155	\$ (44,440)	-48.2%
Loan servicing income	110,222	62,510	47,712	76.3%
Gain on sale of mortgage loans	256,304	199,608	56,696	28.4%
Other	1,561	1,156	405	35.0%
Total revenues	415,802	355,429	60,373	17.0%
Compensation & benefits	128,887	103,049	(25,838)	-25.1%
Variable servicing & processing	34,620	20,338	(14,282)	-70.2%
Occupancy & equipment	23,690	15,462	(8,228)	-53.2%
Interest expense	13,729	56,988	43,259	75.9%
Bad debt expense	16,153	8,808	(7,345)	-83.4%
Amortization of acquisition intangibles	13,577	13,760	183	1.3%
Other	46,110	48,450	2,340	4.8%
Total expenses	276,766	266,855	(9,911)	-3.7%
Pretax earnings	\$ 139,036	\$ 88,574	\$ 50,462	57.0%

Revenues increased 17.0% to \$415.8 million in fiscal 2001 compared with fiscal 2000. The increase is 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 \$56.7 million over the prior year resulting from favorable secondary market pricing on mortgage loan sales. During the twelve months ending April 30, 2001 the Company originated \$6.5 billion in mortgage loans compared to \$5.7 billion last year. 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% over the prior year. The increase is principally attributable to a higher loan servicing portfolio balance, increased servicing operations efficiencies and an increase in the collection of borrower late fees. The average number of loans being serviced increased by 67,112 to an average portfolio balance for the year of \$15.9 billion compared to \$8.8 billion last year. The increase in revenues was partially offset by the winding down of certain mortgage activities during fiscal year 2001.

Pretax earnings increased \$50.5 million or 57.0% to \$139.0 million for the year ended April 30, 2001. The improved performance is primarily due to the increased revenues. The decrease in both interest income and interest expense is a result of the move to off-balance sheet arrangements for the funding of mortgage loans. Utilizing the off-balance sheet arrangements, the Company essentially no longer incurs short-term borrowings to fund its mortgage loans. Mortgage operations' operating margin increased to 33.4% from 24.9% in the prior year. The move to off-balance sheet arrangements accounted for 520 basis points of the margin improvement.

Mortgage operations benefited from cross-sell initiatives in 2001, as 5.4% of all mortgage loans originated came from tax clients. EBITDA for Mortgage operations increased 48.6% to \$161.8 million compared to \$108.9 million last year.

INVESTMENT SERVICES	Year Ended April 30		Variance Better (worse) than	
	2001	2000	\$	%
Commission & fee income	\$ 241,494	\$ 177,370	\$ 64,124	36.2%
Margin interest income	201,793	79,416	122,377	154.1%
Other	29,138	11,590	17,548	151.4%
Total revenues	472,425	268,376	204,049	76.0%
Compensation & benefits	161,560	87,590	(73,970)	-84.5%
Interest expense	106,303	41,563	(64,740)	-155.8%
Occupancy & equipment	30,048	12,551	(17,497)	-139.4%
Depreciation & amortization	19,166	6,058	(13,108)	-216.4%
Commission, floor brokerage & fees	10,103	15,553	5,450	35.0%
Amortization of acquisition intangibles	47,531	19,605	(27,926)	-142.4%
Other	85,025	44,230	(40,795)	-92.2%
Total expenses	459,736	227,150	(232,586)	-102.4%
Pretax earnings	\$ 12,689	\$ 41,226	\$ (28,537)	-69.2%

Investment services revenues for the year increased 76.0% to \$472.4 million from \$268.4 million. The increase is attributable primarily to the acquisition of OLDE, the parent company of H&R Block Financial Advisors, Inc. ("HRBFA," formerly OLDE Discount Corporation) on December 1, 1999, and reflects a full twelve months of revenues for the acquired companies in fiscal year 2001 as compared with only five months of revenues in fiscal year 2000.

Pretax earnings for this segment decreased by 69.2% to \$12.7 million from \$41.2 million earned last year. 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, the Company agreed to settle a class action lawsuit filed against OLDE. The Company denies liability with respect to these claims, but has determined to settle the matter to avoid the costs, expenses, and distractions of further litigation. Under the preliminarily approved settlement, which is subject to final court approval, HRBFA will distribute \$21 million to a fund to be used to pay claims of class members, attorneys' fees and the administrative expenses relating to the settlement. The Company accrued \$16.8 million related to this settlement in fiscal 2001.

In April 2001 in an effort to improve profitability due to weak market conditions, Investment services reduced its number of associates by 6%, which resulted in a one-time charge of \$1.6 million related to severance costs. Severance charges for the full fiscal year totaled \$2.7 million.

Trading Volume. In line with the market's general decline, the Company's average trading volumes have fallen by more than 46% as measured by average trades per day. HRBFA's trading volume has been historically linked with the overall performance of the market indices, especially the Nasdaq.

Margin Lending. Impacted by market performance, volatility and investor uncertainty, 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. This trend is consistent with the rest of the industry and reflects the selling that occurred as the market dropped. 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. Net interest margin, the blended rate of interest earned on outstanding margin balances less the cost of all sources funding margin loans, improved from 2.5% to 2.9% as reliance on higher-cost funding sources decreased.

Principal Trading. Decimalization replaced fractional trading for listed equities on January 29 and for Nasdaq equities on April 9. The impact of decimalization has reduced the dealer spread between bid and ask prices, reducing revenue opportunities. Overall principal trading revenue, including fixed income trading and unit investment trusts, increased \$16.8 million to \$63.3 million in fiscal 2001 from the previous fiscal year.

Continuing efforts to become an advisory-based relationship provider, a number of key initiatives occurred despite the difficult financial and market environment. The Company expanded its product line to include annuities and expanded online capabilities. Under development are cash management capabilities and fee-based services. The Express IRA product was launched in six tax services regions, introducing new technology, sales activities, service functions and training across the tax services and HRBFA organizations. Another key cross-organization initiative was the creation and testing of the TPFA (Tax Preparer Financial Advisor) program. In its pilot year, TPFAs, through tax season, cross-sold 3,000 accounts. In addition, tax client referrals to HRBFA resulted in approximately 15,000 new accounts. Finally, as of May 2001, 55,068 client tax returns were cross-sold to tax services from HRBFA. The Investment services segment has yet to experience significant revenues from these initiatives. Expenses for the development of cross-sell marketing systems also impacted the decline in pretax earnings.

Investment services' EBITDA increased 16.7% to \$78.1 million over the prior year.

BUSINESS SERVICES	<i>Year Ended April 30</i>		<i>Variance Better (worse) than</i>	
	2001	2000	\$	%
Accounting, consulting & tax	\$ 319,750	\$ 268,568	\$ 51,182	19.1%
Product sales	20,960	16,533	4,427	26.8%
Management fee income	11,467	17,341	(5,874)	-33.9%
Other	21,643	8,425	13,218	156.9%
Total revenues	373,820	310,867	62,953	20.3%
Compensation & benefits	240,660	182,592	(58,068)	-31.8%
Occupancy & equipment	24,792	28,444	3,652	12.8%
Amortization of acquisition intangibles	31,577	22,786	(8,791)	-38.6%
Other	59,746	59,934	188	0.3%
Total expenses	356,775	293,756	(63,019)	-21.5%
Pretax earnings	\$ 17,045	\$ 17,111	\$ (66)	-0.4%

Business services revenues of \$373.8 million increased 20.3% from \$310.9 million in the prior year. The increase in revenues over the prior year is attributable to: (a) the inclusion of RSM McGladrey for twelve months as compared to nine months for the previous year (\$43.8 million); (b) growth in services including extended tax consulting services and insurance alliance revenues (\$44.7 million) and (c) services from newly acquired firms, net of the lost revenue from sold offices. The increases in these areas were 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 had been merged into RSM McGladrey, the national accounting firm that acquired substantially all of the non-attest assets of McGladrey & Pullen, LLP on August 2, 1999. Prior to the mergers, for certain of the regional accounting firms, the Company was required, in accordance with Emerging Issues Task Force No. 97-2 – “Application of FASB Statement No. 94 and APB Opinion No. 16 to Physician Practice Management Entities and Certain Other Entities with Contractual Management Arrangements,” to consolidate revenues and expenses from the non-attest business that the Company owned and the attest business of firms located in Kansas City, Chicago, Baltimore and Philadelphia that the Company did not own, but for whom it performed management services. Revenues are no longer consolidated as a result of the change in organizational structure.

Pretax earnings were approximately equivalent to the prior year. 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. This loss was offset by earnings from newly acquired firms and net growth from the core business. EBITDA increased 20.9% to \$55.8 million from \$46.2 million in fiscal 2000.

	Year Ended April 30		Variance Better (worse) than	
	2001	2000	\$	%
Total revenues	\$ 5,837	\$ 4,668	\$ 1,169	25.0%
Compensation & benefits	14,376	6,114	(8,262)	-135.1%
Interest expense	11,660	3,137	(8,523)	-271.7%
Marketing & advertising	5,237	693	(4,544)	-655.7%
Other	12,091	17,200	5,109	29.7%
Total expenses	43,364	27,144	(16,220)	-59.8%
Pretax loss	\$ (37,527)	\$ (22,476)	\$ (15,051)	-67.0%
Interest expense on acquisition debt	\$ 98,759	\$ 56,118	\$ (42,641)	-76.0%

The unallocated corporate pretax loss for the year increased 67.0% to \$37.5 million from \$22.5 million in the comparable period last 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 the prior year. 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 last year.

FISCAL 2000 COMPARED TO FISCAL 1999

SIGNIFICANT EVENTS IN FISCAL 2000

On December 1, 1999, the Company completed the purchase of all the issued and outstanding shares of capital stock of OLDE, parent of H&R Block Financial Advisors, Inc. (formerly OLDE Discount Corporation) a leading discount broker in the United States. HRBFA offers brokerage and other financial services through a nationwide network of approximately 1,400 registered representatives located in 105 OLDE offices and, since the acquisition, in 93 H&R Block Financial Centers. The purchase price was \$850 million in cash plus net tangible book value payments of \$48.5 million. The purchase agreement also provides for possible future contingent 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.

On August 2, 1999, the Company, through a subsidiary, RSM McGladrey, completed the purchase of substantially all of the non-attest assets of McGladrey & Pullen, LLP. McGladrey & Pullen, LLP was the nation's seventh largest accounting and consulting firm with more than 70 offices located primarily in the Eastern, Midwestern, Northern and Southwestern United States. This acquisition significantly increased the size of the

Business services segment, new in 1999. 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 purchase agreement also provides for possible future contingent consideration based on a calculation of earnings in years 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 \$65.5 million for outstanding accounts receivable and work-in-process that have been repaid to the Company. The acquisition was accounted for as a purchase, and accordingly, results are included since the date of acquisition.

CONSOLIDATED H&R BLOCK, INC.

	Year Ended April 30		Variance Better (worse) than	
	2000	1999	\$	%
Revenues	\$ 2,451,943	\$ 1,644,665	\$ 807,278	49.1%
Pretax earnings	412,266	383,541	28,725	7.5%
Net earnings	\$ 251,895	\$ 215,366	\$ 36,529	17.0%

Revenues increased 49.1% to \$2.5 billion compared to \$1.6 billion in fiscal 1999. Net earnings from continuing operations increased 5.9% to \$251.9 million from \$237.8 million in the prior year. Basic net earnings per share from continuing operations increased to \$2.57 from \$2.38 in 1999. Diluted net earnings per share from continuing operations increased to \$2.55 from \$2.36. EBITDA increased 36.3% to \$598.0 million from \$438.8 million in fiscal 1999.

The pretax amortization expense of acquired intangible assets increased 172.2% in fiscal 2000 to \$66.3 million from \$24.4 million in fiscal 1999. Excluding the after-tax impact of this expense, net earnings from continuing operations were \$304.4 million, or \$3.08 per diluted share in fiscal 2000, compared to \$254.2 million, or \$2.52 per diluted share the prior year, increases of 19.7% and 22.2%, respectively.

The effective tax rate for fiscal 2000 increased to 38.9% from 38.0% in fiscal 1999. The increase is primarily due to non-deductible amortization of goodwill and other intangible assets related to the OLDE acquisition.

An analysis of operations by reportable operating segment follows.

U.S. TAX OPERATIONS

	Year Ended April 30		Variance Better (worse) than	
	2000	1999	\$	%
Tax preparation and related fees	\$ 1,128,891	\$ 989,350	\$ 139,541	14.1%
Royalties	128,870	114,902	13,968	12.2%
RAL participation fees	89,761	90,070	(309)	-0.3%
Software sales	39,546	33,486	6,060	18.1%
Other	44,017	30,461	13,556	44.5%
Total revenues	1,431,085	1,258,269	172,816	13.7%
Compensation & benefits	550,287	472,443	(77,844)	-16.5%
Occupancy & equipment	180,110	154,082	(26,028)	-16.9%
Depreciation & amortization	66,522	49,381	(17,141)	-34.7%
Cost of software sales	22,430	17,266	(5,164)	-29.9%
Bad debt expense	32,541	56,116	23,575	42.0%
Marketing & advertising	96,922	71,512	(25,410)	-35.5%
Other	162,281	123,356	(38,925)	-31.6%
Total expenses	1,111,093	944,156	(166,937)	-17.7%
Pretax earnings	\$ 319,992	\$ 314,113	\$ 5,879	1.9%

Revenues increased 13.7% to \$1.4 billion from \$1.3 billion in fiscal 1999. Combined tax preparation and related fees generated from clients visiting a tax office increased \$139.5 million, or 14.1%, due to pricing increases and a 2.2% increase in clients served in company-owned offices. Fees associated with participation interests in RALs decreased 0.3% to \$89.8 million due to lower pricing as a result of the Internal Revenue Service re-instatement of the Debt Indicator Program and a pilot program offering RALs with no bank charge in certain geographical areas. These two factors decreased the average revenue per RAL by 22.8%. Royalty revenues increased 12.2% to \$128.9 million due to pricing increases and a 2.6% increase in clients served by franchises. Revenues from software sales increased \$6.1 million, or 18.1%, due to an increase in electronic filing fees generated through the clients' use of the Company's tax preparation software as well as an increase in the number of software units sold.

Operating earnings increased 1.9% to \$320.0 million from \$314.1 million in 1999. The pretax margin decreased to 22.4% from 25.0% in 1999, due to higher spending related to new initiatives and overstaffing in tax offices in April due to anticipated client demand that did not occur. New initiatives included the start-up of e-commerce services, the offer of RALs with no bank charge, and the new prepaid spending card program, Refund Rewards™.

EBITDA was \$386.5 million for fiscal 2000, up from \$363.5 million in 1999.

INTERNATIONAL TAX OPERATIONS	Year Ended April 30		Variance Better (worse) than	
	2000	1999	\$	%
Canada	\$ 61,102	\$ 58,504	\$ 2,598	4.4%
Australia	17,573	14,540	3,033	20.9%
United Kingdom	1,595	692	903	130.5%
Overseas franchises	1,248	978	270	27.6%
Total revenues	81,518	74,714	6,804	9.1%
Canada	3,291	2,450	841	34.3%
Australia	3,189	2,267	922	40.7%
United Kingdom	(1,958)	(2,559)	601	23.5%
Overseas franchises	347	356	(9)	-2.5%
Pretax earnings	\$ 4,869	\$ 2,514	\$ 2,355	93.7%

Revenues increased 9.1% to \$81.5 million from \$74.7 million in 1999. Pretax earnings increased 93.7% to \$4.9 million from \$2.5 million in 1999, and the pretax margin increased to 6.0% from 3.4% in 1999. The increase in pretax earnings is due to better results in Australia and Canada. EBITDA was \$10.4 million, up from \$8.3 million in the prior year.

Australia's revenues increased 20.9% to \$17.6 million from \$14.5 million. Pretax earnings increased 40.7% to \$3.2 million from \$2.3 million. These results reflect the strong Australian dollar. The increases are due to a 12.7% increase in volume in company-owned offices, along with an increase in the pretax margin to 18.1% from 15.6% in 1999.

Canada's revenues increased 4.4% to \$61.1 million from \$58.5 million in 1999. Pretax earnings increased 34.3% to \$3.3 million from \$2.5 million. The number of regular returns prepared in company-owned offices decreased 8.2%, while the number of cash back returns prepared increased 7.6%. The improvement in pretax earnings is primarily due to the lowering of certain expenses from closing less profitable offices and improved expense control.

Revenues in the United Kingdom increased 130.5% to \$1.6 million from \$692 thousand in fiscal 1999. Pretax losses decreased 23.5% to \$2.0 million from \$2.6 million in 1999. The improved results were primarily due to a March 1999 acquisition and increased revenue in existing tax offices, leveraged over certain fixed costs.

MORTGAGE OPERATIONS	Year Ended April 30		Variance Better (worse) than	
	2000	1999	\$	%
Interest income	\$ 92,155	\$ 85,160	\$ 6,995	8.2%
Loan servicing income	62,510	38,681	23,829	61.6%
Gain on sale of mortgage loans	199,608	130,337	69,271	53.2%
Other	1,156	1,766	(610)	-34.5%
Total revenues	355,429	255,944	99,485	38.9%
Compensation & benefits	103,049	64,354	(38,695)	-60.1%
Variable servicing & processing	20,338	14,400	(5,938)	-41.2%
Occupancy & equipment	15,462	10,053	(5,409)	-53.8%
Interest expense	56,988	52,018	(4,970)	-9.6%
Bad debt expense	8,808	13,171	4,363	33.1%
Amortization of acquisition intangibles	13,760	12,574	(1,186)	-9.4%
Other	48,450	26,625	(21,825)	-82.0%
Total expenses	266,855	193,195	(73,660)	-38.1%
Pretax earnings	\$ 88,574	\$ 62,749	\$ 25,825	41.2%

Revenues increased 38.9% to \$355.4 million from \$255.9 million in 1999. Pretax earnings increased 41.2% to \$88.6 million from \$62.7 million. Option One reported revenues of \$322.0 million, up 45.3% from \$221.6 million in the prior year. Pretax earnings increased 49.9% to \$95.0 million from \$63.4 million in 1999. Option One originated \$5.7 billion of loans in fiscal 2000, up 58.0% from \$3.6 billion in 1999, and sold or securitized \$6.1 billion of loans, up 73.7% from \$3.5 billion in 1999. At April 30, 2000, Option One's servicing portfolio was 114,300 loans totaling \$11.3 billion, up from 65,300 loans totaling \$6.5 billion at April 30, 1999. The increase in loans serviced, originated and sold drove Option One's revenue increase. Although certain expenses increased as Option One pursued growth plans, the increase in revenues and contribution margins exceeded the higher expenses and led to the increase in pretax earnings. EBITDA increased to \$108.9 million from \$78.5 million in 1999.

INVESTMENT SERVICES	Year Ended April 30		Variance Better (worse) than	
	2000	1999	\$	%
Commission & fee income	\$ 177,370	\$ 3,859	\$ 173,511	-
Margin interest income	79,416	-	79,416	-
Other	11,590	130	11,460	-
Total revenues	268,376	3,989	264,387	-
Compensation & benefits	87,590	973	(86,617)	-
Interest expense	41,563	-	(41,563)	-
Occupancy & equipment	12,551	195	(12,356)	-
Depreciation & amortization	6,058	149	(5,909)	-
Commission, floor brokerage & fees	15,553	3,106	(12,447)	-400.7%
Amortization of acquisition intangibles	19,605	55	(19,550)	-
Other	44,230	1,134	(43,096)	-
Total expenses	227,150	5,612	(221,538)	-
Pretax earnings (loss)	\$ 41,226	\$ (1,623)	\$ 42,849	-

Revenues increased \$264.4 million to \$268.4 million from \$4.0 million in 1999. Pretax earnings increased \$42.8 million to \$41.2 million from a loss of \$1.6 million last year. The increase in revenues and pretax earnings is due to the first-time inclusion of OLDE's financial results for five months in fiscal 2000. EBITDA increased to \$66.9 million from a negative \$1.4 million in 1999.

Since the acquisition date, OLDE contributed revenues of \$253.9 million and pretax earnings of \$66.8 million, driven by high market trading volume yielding over 1.8 million trades. At April 30, 2000, OLDE had 658,000 active accounts and managed client assets of \$44 billion.

	Year Ended April 30		Variance Better (worse) than	
	2000	1999	\$	%
BUSINESS SERVICES				
Accounting, consulting & tax	\$ 268,568	\$ 43,369	\$ 225,199	519.3%
Product sales	16,533	3,703	12,830	346.5%
Management fee income	17,341	183	17,158	–
Other	8,425	86	8,339	–
Total revenues	310,867	47,341	263,526	556.7%
Compensation & benefits	182,592	29,903	(152,689)	-510.6%
Occupancy & equipment	28,444	2,815	(25,629)	-910.4%
Amortization of acquisition intangibles	22,786	2,845	(19,941)	-700.9%
Other	59,934	4,657	(55,277)	–
Total expenses	293,756	40,220	(253,536)	-630.4%
Pretax earnings	\$ 17,111	\$ 7,121	\$ 9,990	140.3%

Revenues increased to \$310.9 million from \$47.3 million in 1999. Pretax earnings increased 140.3% to \$17.1 million from \$7.1 million last year. The increase in both revenues and pretax earnings is largely due to the first-time inclusion of RSM McGladrey financial results for nine months in fiscal 2000, and the inclusion for the entire year in fiscal 2000 of the results from six regional accounting firms acquired at various times during fiscal 1999. EBITDA increased to \$46.2 million from \$10.5 million last year.

	Year Ended April 30		Variance Better (worse) than	
	2000	1999	\$	%
UNALLOCATED CORPORATE				
Total revenues	\$ 4,668	\$ 4,408	\$ 260	5.9%
Compensation & benefits	6,114	9,672	3,558	36.8%
Interest expense	3,137	1,381	(1,756)	-127.2%
Marketing & advertising	693	432	(261)	-60.4%
Other	17,200	13,652	(3,548)	-26.0%
Total expenses	27,144	25,137	(2,007)	-8.0%
Pretax loss	\$ (22,476)	\$ (20,729)	\$ (1,747)	-8.4%
Interest expense on acquisition debt	\$ 56,118	\$ 17,757	\$ (38,361)	-216.0%

The unallocated corporate pretax loss increased to \$22.5 million from \$20.7 million in 1999.

Interest expense on debt incurred for business acquisitions increased 216.0% to \$56.1 million from \$17.8 million in 1999. The increase is due to borrowings associated with RSM McGladrey and OLDE acquisitions during fiscal 2000.

Net investment income decreased 74.2% to \$8.3 million from \$32.2 million in the prior year. The decrease is a result of less cash available for investment due to business acquisitions and share repurchases throughout fiscal 2000.

LIQUIDITY AND CAPITAL RESOURCES

Cash and marketable securities, excluding trading securities, were \$550.2 million at April 30, 2001, compared to \$636.2 million at April 30, 2000. Working capital decreased to \$282.8 million at April 30, 2001 from \$346.1 million at April 30, 2000. The working capital ratio at April 30, 2001 is 1.14 to 1, compared to 1.10 to 1 at April 30, 2000. The increase in the working capital ratio is primarily attributable to the decrease in short-term borrowings.

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

In Canada, from January through April each year, the Company uses Canadian borrowings to purchase refunds due its clients from Revenue Canada. Maturities of these borrowings range from 30 to 90 days. Net accounts receivable at April 30, 2001 and 2000 include amounts due from Revenue Canada of \$11.8 million and \$17.1 million, respectively.

In April 2000, the Company first entered into third party off-balance sheet arrangements and whole-loan sale arrangements for Option One. These arrangements, modified in April 2001, allow the Company to originate mortgage loans and then sell the loans to a qualified special purpose entity without having to use the Company's short-term borrowings to fund the loans. The arrangements, which are not guaranteed by H&R Block, freed up excess cash and short-term borrowing capacity (\$633.8 million at April 30, 2001), improved liquidity and flexibility, and reduced balance sheet risk, while providing stability and access to liquidity in the secondary market for mortgage loans. The Company has commitments to fund mortgage loans of \$1.5 billion at April 30, 2001 as long as there is no violation of any conditions established in the contracts. External market forces impact the probability of commitments being exercised, and therefore, total commitments outstanding do not necessarily represent future cash requirements. If the commitments are exercised they will be funded using the Company's off-balance sheet arrangements.

At April 30, 2001, the Company had no short-term borrowings, a decrease from \$283.8 million at April 30, 2000. The Company's capital expenditures, dividend payments, share repurchase program, Business services acquisition payments and normal operating activities, including RALs, during the year were funded through both internally-generated funds and short-term borrowings.

For the twelve months ended April 30, 2001 and 2000, interest expense was \$242.6 million and \$155.0 million, respectively. The increase in interest expense is due to the inclusion of operating interest expense associated with the borrowing activities of OLDE for a full year (\$106.3 million) compared to only five months in the prior year and acquisition interest expense of \$70.7 million related to the OLDE acquisition in December 1999. These increases were partially offset by lower interest expense from Mortgage operations because the Company sells the majority of its mortgage loans on the same day they are funded and essentially no longer incurs short-term borrowings to fund its mortgage loans.

In April 2000, the Company issued \$500 million of 8½% 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 acquisition.

In October 1997, the Company issued \$250 million of 6¾% 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 which initially funded the acquisition of Option One.

Long-term debt at April 30, 2001 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 current portion of long-term debt was \$51.8 million, down from \$68.0 million last year, due to payments made during fiscal 2001 with the remaining amount representing payments to be made during fiscal 2002 for accounting firm acquisitions, capital lease obligations and mortgage notes. Long-term debt decreased to \$871.0 million from \$872.4 million at April 30, 2000 due to obligations moving to current and fewer accounting firm acquisitions during the year. Stockholders' equity at April 30, 2001 and 2000 was \$1.2 billion. The Company's debt to total equity ratio at April 30, 2001 was 44%, compared with 50% last year.

Management anticipates a higher level of capital expenditures in 2002, exclusive of acquisitions, than in fiscal 2001. Capital expenditures are expected to increase to support the execution of the Company's strategy. The Company will continue to use short-term financing in the United States to finance various financial activities conducted by Block Financial Corporation and in Canada to finance the Canadian refund discount program.

In March 2000, the Company's Board of Directors approved a plan to repurchase up to 12 million shares of its common stock. At April 30, 2001, 7.2 million shares had been repurchased under this plan, with 6.8 million shares purchased during fiscal 2001. The Company plans to continue to purchase its shares on the open market in accordance with this authorization, subject to various factors including the price of the stock, the ability to maintain progress toward a financial and capital structure that will support a mid single A rating (Moody's – A2; Standard & Poors – A; and Fitch – A), the availability of excess cash, the ability to maintain liquidity and financial flexibility, securities laws restrictions and other investment opportunities available.

OTHER ISSUES

On June 20, 2001, the Company's Board of Directors declared a two-for-one 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. Unaudited proforma net earnings per share data is presented in the notes to consolidated financial statements.

The Notes to 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; new accounting standards; litigation involving the Company; the uncertainties of the extent of share repurchases and their effect 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.

CONSOLIDATED STATEMENTS OF EARNINGS

Amounts in thousands, except per share amounts

Year Ended April 30	2001	2000	1999
REVENUES:			
Service revenues	\$ 2,441,448	\$ 2,021,162	\$ 1,335,177
Product sales	368,844	267,336	176,508
Royalties	149,683	138,903	124,323
Other	41,600	24,542	8,657
	3,001,575	2,451,943	1,644,665
EXPENSES:			
Employee compensation and benefits	1,192,294	963,536	610,866
Occupancy and equipment	283,181	253,171	182,701
Interest	242,551	155,027	69,338
Depreciation and amortization	205,608	147,218	74,605
Marketing and advertising	143,559	140,683	90,056
Supplies, freight and postage	70,440	64,599	57,157
Bad debt	84,422	51,719	71,662
Other	314,454	273,902	133,206
	2,536,509	2,049,855	1,289,591
Operating earnings	465,066	402,088	355,074
OTHER INCOME:			
Investment income, net	5,977	9,840	32,234
Other, net	2,035	338	(3,767)
	8,012	10,178	28,467
Earnings from continuing operations before income taxes	473,078	412,266	383,541
Taxes on earnings	196,330	160,371	145,746
NET EARNINGS FROM CONTINUING OPERATIONS BEFORE CHANGE IN ACCOUNTING PRINCIPLE	276,748	251,895	237,795
Net loss from discontinued operations (less applicable income tax benefit of \$953)	-	-	(1,490)
Net loss on sale of discontinued operations (less applicable income tax benefit of \$13,387)	-	-	(20,939)
Cumulative effect of change in accounting principle for derivatives and hedging activities (less applicable income taxes of \$2,717)	4,414	-	-
NET EARNINGS	\$ 281,162	\$ 251,895	\$ 215,366
BASIC NET EARNINGS PER SHARE:			
Net earnings from continuing operations	\$ 3.01	\$ 2.57	\$ 2.38
Net loss from discontinued operations	-	-	(.22)
Cumulative effect of change in accounting principle	.05	-	-
Net earnings	\$ 3.06	\$ 2.57	\$ 2.16
DILUTED NET EARNINGS PER SHARE:			
Net earnings from continuing operations	\$ 2.99	\$ 2.55	\$ 2.36
Net loss from discontinued operations	-	-	(.22)
Cumulative effect of change in accounting principle	.05	-	-
Net earnings	\$ 3.04	\$ 2.55	\$ 2.14

See notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEETS

Amounts in thousands, except share data

April 30	2001	2000
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 271,813	\$ 379,901
Marketable securities – available-for-sale	8,266	16,966
Marketable securities – trading	46,158	45,403
Receivables from customers, brokers, dealers and clearing organizations, less allowance for doubtful accounts of \$1,692 and \$759	1,310,804	2,857,379
Receivables, less allowance for doubtful accounts of \$47,125 and \$49,602	373,223	434,722
Prepaid expenses and other current assets	260,942	145,741
Total current assets	2,271,206	3,880,112
INVESTMENTS AND OTHER ASSETS:		
Investments in available-for-sale marketable securities	270,159	239,297
Excess of cost over fair value of net tangible assets acquired, less accumulated amortization of \$231,697 and \$130,305	1,051,826	1,095,074
Other	239,586	198,887
	1,561,571	1,533,258
PROPERTY AND EQUIPMENT , at cost less accumulated depreciation and amortization of \$324,287 and \$225,967		
	288,847	299,499
	\$ 4,121,624	\$ 5,712,869
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Notes payable	\$ –	\$ 283,797
Accounts payable to customers, brokers and dealers	1,058,000	2,570,200
Accounts payable, accrued expenses and deposits	361,210	222,362
Accrued salaries, wages and payroll taxes	221,830	173,333
Accrued taxes on earnings	295,599	216,298
Current portion of long-term debt	51,763	67,978
Total current liabilities	1,988,402	3,533,968
LONG-TERM DEBT		
	870,974	872,396
OTHER NONCURRENT LIABILITIES		
	88,507	87,916
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY:		
Common stock, no par, stated value \$.01 per share, authorized 400,000,000 shares	1,089	1,089
Convertible preferred stock, no par, stated value \$.01 per share, authorized 500,000 shares	–	–
Additional paid-in capital	419,957	420,594
Accumulated other comprehensive income (loss)	(42,767)	(26,241)
Retained earnings	1,450,112	1,277,324
	1,828,391	1,672,766
Less cost of common stock in treasury	654,650	454,177
	1,173,741	1,218,589
	\$ 4,121,624	\$ 5,712,869

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Amounts in thousands

Year Ended April 30

	2001	2000	1999
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net earnings	\$ 281,162	\$ 251,895	\$ 215,366
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	205,608	147,218	74,605
Provision for bad debt	84,422	51,719	71,662
Accretion of acquisition liabilities	11,863	10,641	-
Provision for deferred taxes on earnings	(38,870)	(29,286)	1,739
Net (gain) loss on sales of operating units	(2,040)	14,501	20,939
Cumulative effect of change in accounting principle	(4,414)	-	-
Net gain on sales of available-for-sale securities	(17,744)	(11,697)	(4,124)
Changes in assets and liabilities, net of acquisitions:			
Receivables from customers, brokers, dealers and clearing organizations	1,544,640	(893,435)	-
Receivables	(484,836)	(409,690)	112,073
Mortgage loans held for sale:			
Originations and purchases	(7,254,552)	(5,967,895)	(4,290,207)
Sales and principal repayments	7,336,659	6,442,094	4,201,187
Marketable securities – trading	(755)	6,899	-
Prepaid expenses and other current assets	(88,515)	(52,551)	(27,952)
Accounts payable to customers, brokers and dealers	(1,512,200)	868,012	-
Accounts payable, accrued expenses and deposits	138,499	3,732	46,029
Accrued salaries, wages and payroll taxes	48,901	13,683	55,178
Accrued taxes on earnings	66,465	68,316	(260,458)
Other, net	(18,778)	(23,578)	23,237
Net cash provided by operating activities	295,515	490,578	239,274
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of available-for-sale securities	(10,636)	(14,281)	(251,627)
Maturities of available-for-sale securities	21,524	68,261	219,400
Sales of available-for-sale securities	356,192	211,836	522,252
Purchases of property and equipment, net	(90,033)	(141,856)	(89,782)
Payments made for business acquisitions, net of cash acquired	(21,143)	(971,802)	(123,657)
Proceeds from sale of subsidiary	23,200	-	-
Other, net	(20,497)	(6,505)	(25,643)
Net cash provided by (used in) investing activities	258,607	(854,347)	250,943
CASH FLOWS FROM FINANCING ACTIVITIES:			
Repayments of notes payable	(18,219,741)	(50,800,661)	(17,276,595)
Proceeds from issuance of notes payable	17,935,944	51,012,519	16,593,978
Proceeds from issuance of long-term debt	-	495,800	-
Payments on acquisition debt	(68,743)	(4,730)	-
Dividends paid	(108,374)	(105,480)	(95,004)
Payments to acquire treasury shares	(222,895)	(50,654)	(492,945)
Proceeds from stock options exercised	19,550	36,958	73,481
Other, net	2,049	(33,322)	(748)
Net cash provided by (used in) financing activities	(662,210)	550,430	(1,197,833)
Net increase (decrease) in cash and cash equivalents	(108,088)	186,661	(707,616)
Cash and cash equivalents at beginning of the year	379,901	193,240	900,856
Cash and cash equivalents at end of the year	\$ 271,813	\$ 379,901	\$ 193,240
SUPPLEMENTAL CASH FLOW DISCLOSURES:			
Income taxes paid	\$ 150,784	\$ 122,447	\$ 394,273
Interest paid	230,448	141,577	71,431

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

Amounts in thousands

	Common Stock		Convertible Preferred Stock		Additional Paid-in Capital	Retained Earnings	Treasury Stock		Accumulated Other Comprehensive Income (loss)	Total Equity
	Shares	Amount	Shares	Amount			Shares	Amount		
Balances at May 1, 1998	108,973	\$ 1,089	2	\$ -	\$ 432,335	\$ 1,010,547	(1,992)	\$ (77,822)	\$ (24,517)	\$ 1,341,632
Net earnings for the year	-	-	-	-	-	215,366	-	-	-	-
Unrealized loss on translation	-	-	-	-	-	-	-	-	(1,525)	-
Change in net unrealized gain on marketable securities	-	-	-	-	-	-	-	-	2,642	-
Comprehensive income	-	-	-	-	-	-	-	-	-	216,483
Stock options exercised	-	-	-	-	(12,042)	-	2,175	90,462	-	78,420
Restricted stock granted	-	-	-	-	(81)	-	37	1,544	-	1,463
Stock issued for acquisition	-	-	-	-	807	-	268	11,053	-	11,860
Conversion of Convertible Preferred Stock	-	-	(2)	-	(361)	-	11	439	-	78
Acquisition of treasury shares	-	-	-	-	-	-	(11,843)	(492,945)	-	(492,945)
Cash dividends paid – \$.95 per share	-	-	-	-	-	(95,004)	-	-	-	(95,004)
Balances at April 30, 1999	108,973	1,089	-	-	420,658	1,130,909	(11,344)	(467,269)	(23,400)	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	-	-	-	-	(1,567)	-	1,023	42,268	-	40,701
Restricted stock granted	-	-	-	-	200	-	43	1,781	-	1,981
Stock issued for acquisition	-	-	-	-	1,306	-	475	19,694	-	21,000
Conversion of Convertible Preferred Stock	-	-	-	-	(3)	-	1	3	-	-
Acquisition of treasury shares	-	-	-	-	-	-	(1,136)	(50,654)	-	(50,654)
Cash dividends paid – \$1.075 per share	-	-	-	-	-	(105,480)	-	-	-	(105,480)
Balances at April 30, 2000	108,973	1,089	-	-	420,594	1,277,324	(10,938)	(454,177)	(26,241)	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	-	-	-	-	(68)	-	501	19,121	-	19,053
Restricted stock granted	-	-	-	-	(382)	-	57	2,252	-	1,870
Stock issued for ESPP	-	-	-	-	(187)	-	28	1,049	-	862
Acquisition of treasury shares	-	-	-	-	-	-	(6,816)	(222,895)	-	(222,895)
Cash dividends paid – \$1.175 per share	-	-	-	-	-	(108,374)	-	-	-	(108,374)
Balances at April 30, 2001	108,973	\$ 1,089	-	\$ -	\$ 419,957	\$ 1,450,112	(17,168)	\$ (654,650)	\$ (42,767)	\$ 1,173,741

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Dollars in thousands, except share data

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 \$1,733,700, or 58% of total revenues for the year ended April 30, 2001 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.

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 and due from banks and securities purchased under agreements to resell. For purposes of the consolidated statements of cash flows, the Company considers all 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 specified in the contracts.

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.

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 included in the consolidated statements of earnings.

The cost of marketable securities sold is determined on the specific identification method and realized gains and losses are reflected in 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.

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.

Excess of cost over fair value of net tangible assets acquired: The excess of cost of purchased subsidiaries, operating offices and franchises over the fair value of net tangible assets acquired is being amortized over a weighted average life of 14 years on a straight-line basis.

At each balance sheet date, the Company assesses long-lived assets, including intangibles, for impairment 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. In addition, a determination is made by management to ascertain whether goodwill has been impaired. Analysis is performed on an operating business unit basis using the fair value method. If the review indicates that goodwill is not recoverable, the Company would recognize an impairment loss. Under these methods, no material impairment adjustments to goodwill, other intangibles or other long-lived assets were made during fiscal year 2001, 2000, or 1999.

Mortgage servicing rights: Mortgage servicing rights ("MSRs") are retained in the sale or securitization 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, 2001 and 2000, 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, 2001. The weighted average interest rate of notes payable at April 30, 2000 was 6.2%.

Revenue recognition: Service revenues consist primarily of fees for preparation of tax returns, participations in refund anticipation loans, consulting services, brokerage commissions and interest earned on customer accounts and mortgage loans. Generally, service revenues are recorded in the period in which 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.

Product sales consist primarily of gains on sales of mortgage loans. 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.

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 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, notes payable, 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").

New accounting standards: In the fourth quarter of fiscal 2001, the Company elected the early adoption of 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 establish 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. 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. Proforma effects are not disclosed as the change affects only the current period.

Currently, there are ongoing discussions surrounding the implementation and interpretation of SFAS 133 by the Financial Accounting Standards Board's Derivative Implementation Group. If the definition of derivative instruments is altered, this change may impact the Company's transition adjustment amounts and subsequent reported operating results.

In December 1999, the Securities and Exchange Commission ("SEC") issued SEC Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements" ("SAB 101"). SAB 101 summarizes certain of the SEC's views in applying generally accepted accounting principles to revenue recognition in financial statements. The Company implemented SAB 101 in the fourth quarter of fiscal 2001. The implementation of SAB 101 has no impact on annual revenues and earnings, however, due to the seasonal influences of the business, the implementation resulted in a shift of revenues and earnings between the Company's third and fourth quarters. As a result, the Company has adjusted its third quarter of fiscal year 2001. Except for the Quarterly Financial Data, the Company has not presented pro forma results.

In fiscal year 2001, the Company adopted Statement of Financial Accounting Standards No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" ("SFAS 140"). SFAS 140 is effective for transfers and servicing of financial assets and extinguishments of liabilities occurring after March 31, 2001 and is effective for recognition and reclassification of collateral and for disclosures relating to securitization transactions and collateral for fiscal years ending after December 15, 2000. SFAS 140 is a replacement of Statement of Financial Accounting Standards No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" ("SFAS 125"). SFAS 140 revises the standards for accounting for securitizations and other transfers of financial assets and collateral and requires certain

new disclosures, but carries over most of the SFAS 125 provisions without reconsideration. The adoption of SFAS 140 had no effect on the consolidated financial statements.

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

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 from continuing operations are as follows (shares in thousands):

<i>Year Ended April 30</i>	2001	2000	1999
Net earnings from continuing operations before change in accounting principle	\$ 276,748	\$ 251,895	\$ 237,795
Basic weighted average shares	91,947	98,033	99,761
Effect of dilutive securities:			
Common and convertible preferred stock options	620	895	1,058
Convertible preferred stock	1	1	2
Dilutive potential common shares	92,568	98,929	100,821
Net earnings per share from continuing operations:			
Basic	\$ 3.01	\$ 2.57	\$ 2.38
Diluted	2.99	2.55	2.36

Diluted net earnings per share excludes the impact of weighted average shares issuable upon the exercise of stock options of 6,953,301, 3,039,195 and 149,370 shares for 2001, 2000 and 1999, respectively, because the options' exercise prices were greater than the average market price of the common shares and therefore, the effect would be antidilutive.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents is comprised of the following:

<i>April 30</i>	2001	2000
Cash and interest-bearing deposits	\$ 218,876	\$ 162,363
Other interest-bearing securities	42,007	183,144
Securities purchased under agreements to resell	9,000	32,000
Certificates of deposit	1,930	2,394
	\$ 271,813	\$ 379,901

MARKETABLE SECURITIES – AVAILABLE-FOR-SALE

The amortized cost and market value of marketable securities classified as available-for-sale at April 30, 2001 and 2000 are summarized below:

	2001				2000			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
<i>Current:</i>								
Municipal bonds and notes	\$ 8,260	\$ 6	\$ –	\$ 8,266	\$ 17,021	\$ –	\$ 55	\$ 16,966
	8,260	6	–	8,266	17,021	–	55	16,966
<i>Noncurrent:</i>								
Residual interests	243,840	7,571	12,811	238,600	182,629	4,486	1,169	185,946
Municipal bonds	26,654	352	58	26,948	49,566	2	645	48,923
Common stock	4,946	500	835	4,611	4,025	571	168	4,428
	275,440	8,423	13,704	270,159	236,220	5,059	1,982	239,297
	\$ 283,700	\$ 8,429	\$ 13,704	\$ 278,425	\$ 253,241	\$ 5,059	\$ 2,037	\$ 256,263

Proceeds from the sales of available-for-sale securities were \$356,192, \$211,836 and \$522,252 during 2001, 2000 and 1999, respectively. Gross realized gains on those sales during 2001, 2000 and 1999 were \$17,936, \$12,177 and \$4,711, respectively; gross realized losses were \$192, \$480 and \$587, respectively.

Contractual maturities of available-for-sale debt securities at April 30, 2001 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
Within one year	\$ 8,260	\$ 8,266
After one year through five years	15,294	15,404
After five years through 10 years	11,360	11,544
	\$ 34,914	\$ 35,214

RETAINED INTERESTS

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 in a whole-loan sale to a third-party trust. Under these arrangements, the Company retains a receivable from the trust that is then pledged to a qualified special purpose entity who securitizes the related mortgage loans. The Company then retains a residual interest in these securitized loans that 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 \$380,267 of these residual interests in NIM transactions. The receivable from the whole-loan sales of \$66,587 and the pledge of this receivable of \$14,206, were treated as a 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 \$319,620, servicing fees of \$214 and cash flows from interest-only strips of \$2,127 from the securitization trusts in fiscal 2001.

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 if \$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.

Included in investments in available-for-sale marketable securities as of April 30, 2001 and April 30, 2000 are residual interests in securitizations. 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, and (6) other fees. Prepayment and loss assumptions used in estimating the cash flows are based on evaluation of the actual experience of the Company's servicing portfolio or on market rates on new portfolios, taking into consideration the current and expected interest rate environment and its expected impact on future prepayment and default rates. The estimated cash flows expected to be received by the Company are discounted at an interest rate the Company believes an unaffiliated third-party purchaser would require as a rate of return on such a financial instrument. To the extent that actual future excess cash flows are different from estimated excess cash flows, the fair value of the Company's residual could increase or decrease.

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

Estimated annual prepayments	23% to 75%
Estimated annual credit losses	.5% to 3.5%
Discount rate - residual interests	12% to 20%
Discount rate - MSRs	12.8%

The fair value of the residuals at April 30, 2001 and April 30, 2000 were \$238,600 and \$185,946, respectively. The fair value of MSRs at April 30, 2001 and April 30, 2000 were \$61,796 and \$42,282, respectively. Additions to and amortization of MSRs for 2001 were \$37,661 and \$18,147, respectively. At April 30, 2001, 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:

	<i>Residential Mortgage Loans</i>			<i>Servicing Assets</i>
	<i>Fixed-Rate</i>	<i>Adjustable</i>	<i>NIMs</i>	
Carrying amount/fair value	\$ 31,635	\$ 46,843	\$ 160,122	\$ 61,796
Weighted average life (in years)	7.8	5.5	3.9	2.5
Annual prepayments:				
Adverse 10% - \$ impact on fair value	\$ (1,026)	\$ (1,350)	\$ (21,911)	\$ (6,916)
Adverse 20% - \$ impact on fair value	(1,824)	(2,326)	(37,947)	(15,172)
Annual credit losses:				
Adverse 10% - \$ impact on fair value	\$ (686)	\$ (792)	\$ (19,168)	Not applicable
Adverse 20% - \$ impact on fair value	(1,451)	(1,508)	(37,004)	Not applicable
Discount rate:				
Adverse 10% - \$ impact on fair value	\$ (1,052)	\$ (1,703)	\$ (7,603)	\$ (1,422)
Adverse 20% - \$ impact on fair value	(2,039)	(3,314)	(14,749)	(2,776)
Variable interest rates:				
Adverse 10% - \$ impact on fair value	\$ (127)	\$ 22	\$ (43,838)	\$ (6)
Adverse 20% - \$ impact on fair value	(114)	(8)	(85,925)	(12)

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.

RECEIVABLES

Receivables consist of the following:

<i>April 30</i>	2001	2000
Business services accounts receivable	\$ 188,041	\$ 148,109
Mortgage loans held for sale	80,925	163,033
Participation in refund anticipation loans	38,824	47,581
Software receivables	33,456	31,721
Loans to franchises	28,716	24,888
Other	50,386	68,992
	420,348	484,324
Allowance for doubtful accounts	47,125	49,602
	\$ 373,223	\$ 434,722

EXCESS OF COST OVER FAIR VALUE OF NET TANGIBLE ASSETS ACQUIRED

Excess of cost over fair value of net tangible assets acquired consists of the following:

<i>April 30</i>	2001	2000
Goodwill	\$ 667,608	\$ 636,350
Customer relationships	397,049	387,775
Assembled workforce	116,312	104,044
Trade names	55,638	55,638
Management infrastructure	29,147	29,147
Noncompete agreements	17,769	12,425
	1,283,523	1,225,379
Less accumulated amortization	231,697	130,305
	\$ 1,051,826	\$ 1,095,074

Amortization expense for 2001, 2000 and 1999 amounted to \$104,276, \$66,346, and \$24,378, respectively.

PROPERTY AND EQUIPMENT

A summary of property and equipment follows:

<i>April 30</i>	2001	2000
Land	\$ 42,420	\$ 42,338
Buildings	83,855	74,260
Computers and other equipment	338,271	290,386
Capitalized software	67,636	50,655
Leasehold improvements	80,952	67,827
	613,134	525,466
Less accumulated depreciation and amortization	324,287	225,967
	\$ 288,847	\$ 299,499

Depreciation and amortization expense for 2001, 2000 and 1999 amounted to \$101,332, \$80,872 and \$50,227, respectively. The Company has property and equipment with a cost of \$45,913 under capital lease. The Company has an agreement to lease real estate and buildings under a noncancelable capital lease for the next 19 years with an option to purchase after six years. The real estate, building and long-term debt of \$14,075 related to this lease was treated as a noncash investing activity on the consolidated statement of cash flows for the year ended on April 30, 2000.

LONG-TERM DEBT

On April 13, 2000, the Company issued \$500,000 of 8½% 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 6¾% 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 \$154,110 and \$169,103 at April 30, 2001 and 2000, 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 2002 to January 2006.

The Company had mortgage notes and capitalized lease obligations of \$22,377 at April 30, 2001 that are collateralized by land, buildings and equipment. The obligations are due at varying dates for up to 19 years.

The aggregate payments required to retire long-term debt are \$51,763, \$44,470, \$40,360, \$265,788, \$12,361 and \$507,995 in 2002, 2003, 2004, 2005, 2006 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 \$907,115 and \$896,894 at April 30, 2001 and 2000, respectively.

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 \$44,490 and \$39,862 at April 30, 2001 and 2000, 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, 2001 and 2000 are \$31,360 and \$36,128, respectively, related to this liability.

STOCKHOLDERS' EQUITY

The Company is authorized to issue 6,000,000 shares of Preferred Stock, without par value. At April 30, 2001, 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, 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.

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, 2001 and 2000, the net unrealized holding gain (loss) on available-for-sale securities was \$(2,088) and \$2,574, respectively, and the foreign currency translation adjustment was \$(40,679) and \$(28,815), respectively.

<i>Year Ended April 30</i>	2001	2000	1999
Net earnings	\$ 281,162	\$ 251,895	\$ 215,366
Unrealized gains on securities (less applicable taxes (benefit) of (\$3,307), (\$124) and \$1,619):			
Unrealized holding gains (losses) arising during period (less applicable taxes of \$4,057, \$4,426, and \$3,186)	5,718	6,953	5,199
Less: Reclassification adjustment for gains included in earnings (less applicable taxes of \$7,364, \$4,550, and \$1,567)	(10,380)	(7,147)	(2,557)
Foreign currency translation adjustments	(11,864)	(2,647)	(1,525)
Comprehensive income	\$ 264,636	\$ 249,054	\$ 216,483

STOCK COMPENSATION 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").

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 33⅓% 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, 2000, 1999 and 1998 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.

Changes during the years ended April 30, 2001, 2000 and 1999 under the stock option plans were as follows:

	2001		2000		1999	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Options outstanding, beginning of year	8,440,614	\$ 44.22	5,726,494	\$ 38.03	5,110,392	\$ 32.71
Options granted	4,305,517	32.51	5,059,802	50.16	4,127,742	42.20
Options exercised	(510,458)	34.07	(1,032,251)	36.12	(2,196,673)	32.67
Options which expired	(2,781,642)	39.55	(1,313,431)	46.50	(1,314,967)	39.40
Options outstanding, end of year	9,454,031	40.80	8,440,614	44.22	5,726,494	38.03
Shares exercisable, end of year	4,336,857	42.33	5,206,457	42.70	3,505,737	37.62
Shares reserved for future grants, end of year	8,055,518		11,037,281		2,966,135	

A summary of stock options outstanding and exercisable at April 30, 2001 follows:

Range of Exercise Prices	Outstanding			Exercisable	
	Number Outstanding at April 30	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable at April 30	Weighted-Average Exercise Price
\$19.9375 – 28.75	265,684	6 years	\$ 27.62	265,684	\$ 27.62
\$30.6875 – 36.875	4,102,382	6 years	32.49	1,145,905	32.57
\$37.00 – 44.625	1,508,298	8 years	41.92	869,267	41.62
\$45.00 – 52.00	2,998,667	4 years	49.92	2,056,001	49.97
\$55.0625 – 55.625	579,000	9 years	55.62	–	–
	9,454,031			4,336,857	

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 2001, 27,345 shares were purchased under the ESPP out of a total authorized 3,000,000 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	2001	2000	1999
<i>Net earnings:</i>			
As reported	\$ 281,162	\$ 251,895	\$ 215,366
Pro forma	262,701	237,544	202,421
<i>Basic net earnings per share:</i>			
As reported	\$ 3.06	\$ 2.57	\$ 2.16
Pro forma	2.86	2.42	2.03
<i>Diluted net earnings per share:</i>			
As reported	\$ 3.04	\$ 2.55	\$ 2.14
Pro forma	2.85	2.41	2.01

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 2001, 2000 and 1999 was \$9.34, \$9.09 and \$5.84, respectively. The weighted-average fair value of purchase rights granted during 2001 was \$4.58, using the following weighted-average assumptions: expected life of four months, volatility of 26.37%, dividend yield of 3.38% and risk-free interest rate of 6.05%. The following weighted-average assumptions were used for stock option grants during the following periods:

Year Ended April 30	2001	2000	1999
Risk-free interest rate	6.25%	5.75%	5.41%
Expected life	3 years	3 years	3 years
Expected volatility	61.21%	30.67%	21.86%
Dividend yield	3.39%	2.20%	2.36%

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). As adjusted in connection with the two-for-one stock split effective on August 1, 2001, 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 under the 1998 plan 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 new 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.

OTHER EXPENSES

Included in other expenses are the following:

<i>Year Ended April 30</i>	2001	2000	1999
Legal and professional	\$ 76,232	\$ 47,934	\$ 13,164
Purchased services	55,985	33,347	19,466
Loan servicing	29,396	15,821	11,158
Refund anticipation loan servicing fees	27,315	28,820	15,028
Travel and entertainment	26,668	26,695	15,094
Taxes and licenses	13,250	17,469	14,531
Brokerage commissions and trading fees	11,516	15,639	3,137

TAXES ON EARNINGS

The components of earnings from continuing operations before income taxes upon which Federal and foreign income taxes have been provided are as follows:

<i>Year Ended April 30</i>	2001	2000	1999
United States	\$ 466,437	\$ 408,024	\$ 381,443
Foreign	6,641	4,242	2,098
	\$ 473,078	\$ 412,266	\$ 383,541

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:

<i>Year Ended April 30</i>	2001	2000	1999
<i>Current:</i>			
Federal	\$ 204,060	\$ 163,535	\$ 123,035
State	27,701	23,036	16,128
Foreign	3,439	3,898	1,553
	235,200	190,469	140,716
<i>Deferred:</i>			
Federal	(33,724)	(24,412)	5,114
State	(4,578)	(3,438)	670
Foreign	(568)	(2,248)	(754)
	(38,870)	(30,098)	5,030
	\$ 196,330	\$ 160,371	\$ 145,746

Provision is not made for possible income taxes payable upon distribution of unremitted earnings of foreign subsidiaries. Such unremitted earnings aggregated \$65,229 at December 31, 2000. Management intends to reinvest any foreign earnings, therefore, a provision has not been made for income taxes payable upon remittance of such earnings, as management believes the amount would be immaterial.

The following table reconciles the U.S. Federal income tax rate to the Company's effective tax rate:

<i>Year Ended April 30</i>	2001	2000	1999
Statutory rate	35.0%	35.0%	35.0%
Increases (reductions) in income taxes resulting from:			
State income taxes, net of Federal income tax benefit	3.2%	3.1%	2.9%
Foreign income taxes, net of Federal income tax benefit	0.1%	0.1%	0.2%
Amortization of intangibles	3.6%	2.6%	0.3%
Nontaxable Federal income	(0.3%)	(0.3%)	(0.7%)
Other	(0.1%)	(1.6%)	0.3%
Effective rate	41.5%	38.9%	38.0%

A summary of deferred taxes follows:

<i>April 30</i>	2001	2000
Gross deferred tax assets:		
Accrued expenses	\$ (31,923)	\$ (17,729)
Allowance for credit losses	(18,406)	(8,800)
Current	(50,329)	(26,529)
Residual interest income	(42,048)	(22,193)
Deferred compensation	(20,439)	(18,509)
Depreciation	(8,128)	(12,879)
Amortization of intangibles	(3,258)	-
Noncurrent	(73,873)	(53,581)
Gross deferred tax liabilities:		
Mark-to-market adjustments	3,886	8,437
Accrued income	964	198
Current	4,850	8,635
Mortgage servicing rights	22,944	12,608
Depreciation	-	1,329
Noncurrent	22,944	13,937
Net deferred tax assets	\$ (96,408)	\$ (57,538)

ACQUISITIONS

During fiscal year 2001, the Company acquired several accounting firms. The purchased 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 and is being amortized on a straight-line basis over periods up to 20 years.

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. Such is being amortized on a straight-line basis over periods up to 20 years. 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 and 1998, 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 those dates. In addition, the pro forma information is not intended to be a projection of future results.

<i>April 30 (unaudited)</i>	2000	1999
Revenues	\$ 2,678,022	\$ 2,007,422
Net earnings	218,275	172,566
Basic net earnings per share	\$ 2.23	\$ 1.73
Diluted net earnings per share	2.21	1.71

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 and is being amortized on a straight-line basis over periods up to 20 years.

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 and is being amortized on a straight-line basis over periods up to 20 years.

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 and is being amortized on a straight-line basis over 15 years.

During fiscal year 1999, the Company acquired six regional accounting firms and several smaller market firms. The purchase prices aggregated \$102,285. 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 \$98,012 and is being amortized on a straight-line basis over periods up to 20 years.

On March 5, 1999, the Company acquired Assurance Mortgage Corporation of America (now H&R Block Mortgage Corporation), a company engaged in the origination and sale of conventional mortgage loans. The Company issued 268,325 shares of its Common Stock from treasury, with a value of \$11,860, 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, 1999. The excess of cost over fair value of net tangible assets acquired was \$21,710 and is being amortized on a straight-line basis over 15 years.

During fiscal 2001, 2000 and 1999, the Company made other acquisitions which were accounted for as purchases. Their operations, which are not material, are included in the consolidated statements of earnings since the date of acquisition.

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. 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.

On January 29, 1999, the Company completed the sale of its credit card portfolio. The Company recorded a \$20,939 loss, net of taxes, on the transaction. The consolidated statements of earnings reflect the Company’s Credit card operations segment as discontinued operations. Revenues from discontinued operations for the year ended April 30, 1999 were \$24,143.

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, 2001, for fiscal 2002, 2003, 2004, 2005 and 2006 aggregated \$148,915, \$103,153, \$65,114, \$29,073 and \$13,074, respectively, with no significant commitments

extending beyond that period of time. The Company's rent expense for the years 2001, 2000 and 1999 aggregated \$156,325, \$135,823 and \$99,654, respectively.

Prior to March 31, 1999, the Company was obligated to purchase 60% of the mortgage loan volume which met certain criteria as established by the Company from a 40%-owned affiliate. The Company obtained majority ownership of this affiliate on March 31, 1999. From May 1, 1998 to March 31, 1999 the Company had purchased \$312,173 of such loans.

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 \$1,518,456 and \$546,473 at April 30, 2001 and 2000, 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, 2001, the Company maintained a \$1,860,000 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 \$12,329,021, subservicing loans of \$5,872,902, and the master servicing of \$538,169 previously securitized mortgage loans held in trust at April 30, 2001. Fiduciary bank accounts that are maintained on behalf of investors and for impounded collections were \$279,381 at April 30, 2001. These bank accounts are not assets of the Company and are not reflected in the accompanying consolidated financial statements.

As of April 30, 2001, the Company had provided clearing organizations with bank letters of credit totaling \$68,000 that satisfied margin deposit requirements of \$63,812. These letters of credit are collateralized by customers' margin securities.

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 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.

At April 30, 2001 the Company has provided for the settlement of a class action lawsuit involving the Company's broker-dealer. In the settlement agreement, the Company admits to no wrongdoing.

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

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

FINANCIAL INSTRUMENTS

The Company utilizes forward contracts on FNMA mortgage-backed securities to reduce the interest rate risk related to its fixed rate mortgage portfolio. The position on certain or all of the fixed rate mortgages is closed, on standard Public Securities Association ("PSA") settlement dates, when the Company enters into a forward commitment to sell those mortgages or decides to securitize the mortgages. These instruments are carried at market value and changes in the fair market value are recorded in revenues on the consolidated statements of earnings. There were no FNMA contracts at April 30, 2001.

The Company purchases these instruments from certain broker-dealer counterparties. In the event counterparties do not fulfill their obligations, the Company may be exposed to risk. The risk of default depends on the creditworthiness of the counterparty. It is the Company's policy to review, as necessary, the credit standing of each counterparty.

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 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.

SUBSEQUENT EVENT (UNAUDITED)

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. Common Stock outstanding, giving retroactive effect to the stock split at April 30, 2001 and 2000 would be 217,945,398 shares. Pro forma Common Stock and retained earnings at April 30, 2001 would be \$2,179 and \$1,449,022, respectively.

Pro forma net earnings per share are as follows:

<i>Year Ended April 30</i>	2001	2000	1999
Basic net earning per share:			
Net earnings from continuing operations	\$ 1.51	\$ 1.29	\$ 1.19
Net loss from discontinued operations	-	-	(.11)
Cumulative effect of change in accounting principle	.02	-	-
Net earnings	\$ 1.53	\$ 1.29	\$ 1.08
Diluted net earnings per share:			
Net earnings from continuing operations	\$ 1.50	\$ 1.27	\$ 1.18
Net loss from discontinued operations	-	-	(.11)
Cumulative effect of change in accounting principle	.02	-	-
Net earnings	\$ 1.52	\$ 1.27	\$ 1.07

QUARTERLY FINANCIAL DATA (UNAUDITED)

	<i>Fiscal 2001 Quarter Ended</i>				<i>Fiscal 2000 Quarter Ended</i>			
	<i>April 30,</i> 2001	<i>Jan. 31,</i> 2001	<i>Oct. 31,</i> 2000	<i>July 31,</i> 2000	<i>April 30,</i> 2000	<i>Jan. 31,</i> 2000	<i>Oct. 31,</i> 1999	<i>July 31,</i> 1999
Revenues	\$ 1,703,991	\$ 656,000	\$ 337,474	\$ 304,110	\$ 1,607,930	\$ 512,507	\$ 209,946	\$ 121,560
Earnings (loss) before income taxes (benefits)	641,635	7,792	(86,356)	(89,993)	557,743	(13,523)	(72,157)	(59,797)
Taxes (benefits) on earnings	267,946	3,332	(36,701)	(38,247)	216,962	(6,448)	(27,420)	(22,723)
Net earnings (loss) before change in accounting	373,689	4,460	(49,655)	(51,746)	340,781	(7,075)	(44,737)	(37,074)
Cumulative effect of change in accounting principle	4,414	-	-	-	-	-	-	-
Net earnings (loss)	\$ 378,103	\$ 4,460	\$ (49,655)	\$ (51,746)	\$ 340,781	\$ (7,075)	\$ (44,737)	\$ (37,074)
<i>Basic net earnings per share:</i>								
Net earnings (loss) before change in accounting	\$ 4.08	\$.05	\$ (.54)	\$ (.55)	\$ 3.47	\$ (.07)	\$ (.46)	\$ (.38)
Net earnings (loss)	\$ 4.13	\$.05	\$ (.54)	\$ (.55)	\$ 3.47	\$ (.07)	\$ (.46)	\$ (.38)
<i>Diluted net earnings per share:</i>								
Net earnings (loss) before change in accounting	\$ 4.00	\$.05	\$ (.54)	\$ (.55)	\$ 3.45	\$ (.07)	\$ (.46)	\$ (.38)
Net earnings (loss)	\$ 4.05	\$.05	\$ (.54)	\$ (.55)	\$ 3.45	\$ (.07)	\$ (.46)	\$ (.38)

The accumulation of four quarters in fiscal 2001 and 2000 for net earnings per share does not equal the related per share amounts for the years ended April 30, 2001 and 2000 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 three quarters.

Quarterly results for the fiscal year ended April 30, 2001 in the table above have been adjusted to reflect the implementation of SAB 101. The cumulative effect of this change for periods prior to April 30, 2001 of \$(1,185), net of income taxes, is included in the third quarter of fiscal 2001. There is no year-to-date effect of implementation. The effect of the implementation of SAB 101 on third quarter revenues and net earnings before the change in accounting principle follows:

	<i>SAB 101 Implementation</i>	
	<i>3 months ended Jan. 31, 2001</i>	
	<i>10-Q Reported</i>	<i>Restated</i>
Revenues	\$ 661,354	\$ 656,000
Net earnings before change in accounting	5,645	4,460

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. In the third quarter of fiscal 2001, management re-evaluated its reportable operating segments to more closely reflect how the business is now analyzed and evaluated. As a result, the Company's Financial services segment is now separated into Mortgage operations and Investment services. 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. 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 participates in the refund anticipation loan products offered by a third-party lending institution to tax clients. This segment includes the Company's tax preparation software – Kiplinger TaxCut® from H&R Block, and other personal productivity software offered to the general public and offers online tax preparation through a tax preparer (whereby the client fills out an online tax organizer and sends it to a tax preparer for preparation), online do-it-yourself-tax preparation, online professional tax review and online tax advice 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 franchise offices in 9 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 nonconforming and conforming mortgage loans to the general public in the United States. This segment mainly offers a flexible product line to borrowers who are creditworthy but do not meet traditional underwriting criteria through a network of 16,453 mortgage brokers. Conforming mortgage loan products, as well as the same flexible product line available through brokers are offered through 22 H&R Block Financial Centers and 9 H&R Block Mortgage Corporation retail offices.

Investment services: This segment is primarily engaged in offering full service investment opportunities to the general public. This segment essentially consists of H&R Block Financial Advisors, Inc. (formally OLDE Discount Corporation), a full-service discount securities broker. Financial planning and investment advice are offered through 105 H&R Block Financial Centers, 75 H&R Block Financial Advisors offices and 345 tax offices, and stocks, bonds, mutual funds and other products and securities are offered through a nationwide network of 1,690 registered representatives, at the same locations.

Business services: This segment is primarily engaged in providing accounting, tax and consulting services to business clients and tax, estate planning, financial planning, wealth management and insurance services to individuals. This segment offers services through 100 offices located throughout the United States. Revenues of this segment are seasonal in nature.

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, 2001, 2000 and 1999 is as follows:

	2001	2000	1999
REVENUES:			
U.S. tax operations	\$ 1,654,123	\$ 1,431,085	\$ 1,258,269
International tax operations	79,568	81,518	74,714
Mortgage operations	415,802	355,429	255,944
Investment services	472,425	268,376	3,989
Business services	373,820	310,867	47,341
Unallocated corporate	5,837	4,668	4,408
Total revenues	\$ 3,001,575	\$ 2,451,943	\$ 1,644,665
EARNINGS FROM CONTINUING OPERATIONS:			
U.S. tax operations	\$ 433,514	\$ 319,992	\$ 314,113
International tax operations	7,678	4,869	2,514
Mortgage operations	139,036	88,574	62,749
Investment services	12,689	41,226	(1,623)
Business services	17,045	17,111	7,121
Unallocated corporate	(37,527)	(22,476)	(20,729)
Interest expense on acquisition debt	(98,759)	(56,118)	(17,757)
	473,676	393,178	346,388
Investment income, net	5,977	9,840	32,234
Intercompany interest	(6,575)	9,248	4,919
Earnings from continuing operations before income taxes	\$ 473,078	\$ 412,266	\$ 383,541
DEPRECIATION AND AMORTIZATION:			
U.S. tax operations	\$ 73,604	\$ 66,523	\$ 49,380
International tax operations	5,011	5,494	5,741
Mortgage operations	22,715	20,311	15,764
Investment services	65,384	25,663	204
Business services	38,772	29,060	3,340
Unallocated corporate	122	167	176
Total depreciation and amortization	\$ 205,608	\$ 147,218	\$ 74,605
IDENTIFIABLE ASSETS:			
U.S. tax operations	\$ 334,030	\$ 348,726	\$ 268,650
International tax operations	42,627	59,725	55,684
Mortgage operations	938,379	685,292	1,033,261
Investment services	2,011,517	3,678,614	5,648
Business services	575,998	517,134	146,252
Unallocated corporate	219,073	423,378	400,681
Total assets	\$ 4,121,624	\$ 5,712,869	\$ 1,910,176
CAPITAL EXPENDITURES:			
U.S. tax operations	\$ 42,260	\$ 95,338	\$ 72,325
International tax operations	2,328	3,641	7,857
Mortgage operations	34,423	15,915	8,754
Investment services	3,557	21,582	611
Business services	9,762	9,065	1,778
Unallocated corporate	81	212	80
Total capital expenditures	\$ 92,411	\$ 145,753	\$ 91,405

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 6¾% Senior Notes issued on October 21, 1997 and of the \$500,000 8½% 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, for 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

<i>Year Ended April 30, 2001</i>					
	<i>H&R Block, Inc. (Guarantor)</i>	<i>BFC (Subsidiary Issuer)</i>	<i>Other Subsidiaries</i>	<i>Eliminations</i>	<i>Consolidated H&R Block</i>
Total revenues	\$ –	\$ 1,087,471	\$ 1,926,020	\$ (11,916)	\$ 3,001,575
Expenses:					
Compensation & benefits	–	299,263	893,031	–	1,192,294
Occupancy & equipment	–	56,093	227,088	–	283,181
Interest	–	223,816	18,735	–	242,551
Depreciation & amortization	–	90,660	114,948	–	205,608
Marketing & advertising	–	45,440	98,576	(457)	143,559
Supplies, freight & postage	–	20,949	49,491	–	70,440
Other	–	240,474	170,086	(11,684)	398,876
	–	976,695	1,571,955	(12,141)	2,536,509
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

<i>Year Ended April 30, 2000</i>					
	<i>H&R Block, Inc. (Guarantor)</i>	<i>BFC (Subsidiary Issuer)</i>	<i>Other Subsidiaries</i>	<i>Eliminations</i>	<i>Consolidated H&R Block</i>
Total revenues	\$ –	\$ 761,908	\$ 1,701,325	\$ (11,290)	\$ 2,451,943
Expenses:					
Compensation & benefits	–	199,124	764,412	–	963,536
Occupancy & equipment	–	29,264	223,907	–	253,171
Interest	–	156,123	(1,096)	–	155,027
Depreciation & amortization	–	47,510	99,708	–	147,218
Marketing & advertising	–	49,099	91,584	–	140,683
Supplies, freight & postage	–	11,490	53,109	–	64,599
Other	–	158,200	178,711	(11,290)	325,621
	–	650,810	1,410,335	(11,290)	2,049,855
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 STATEMENT OF EARNINGS

<i>Year Ended April 30, 1999</i>					
	<i>H&R Block, Inc. (Guarantor)</i>	<i>BFC (Subsidiary Issuer)</i>	<i>Other Subsidiaries</i>	<i>Eliminations</i>	<i>Consolidated H&R Block</i>
Total revenues	\$ –	\$ 386,938	\$ 1,270,441	\$ (12,714)	\$ 1,644,665
Expenses:					
Compensation & benefits	–	71,670	539,196	–	610,866
Occupancy & equipment	–	10,740	171,961	–	182,701
Interest	–	72,034	(2,696)	–	69,338
Depreciation & amortization	–	16,604	58,001	–	74,605
Marketing & advertising	–	18,512	71,544	–	90,056
Supplies, freight & postage	–	4,821	52,336	–	57,157
Other	–	123,138	94,444	(12,714)	204,868
	–	317,519	984,786	(12,714)	1,289,591
Operating earnings	–	69,419	285,655	–	355,074
Other income, net	346,772	(3,777)	32,244	(346,772)	28,467
Earnings before income taxes	346,772	65,642	317,899	(346,772)	383,541
Taxes on earnings	131,406	23,933	121,813	(131,406)	145,746
Net earnings from continuing operations	215,366	41,709	196,086	(215,366)	237,795
Discontinued operations	–	(22,429)	–	–	(22,429)
Net earnings	\$ 215,366	\$ 19,280	\$ 196,086	\$ (215,366)	\$ 215,366

CONDENSED CONSOLIDATING BALANCE SHEET

<i>April 30, 2001</i>					
	<i>H&R Block, Inc. (Guarantor)</i>	<i>BFC (Subsidiary Issuer)</i>	<i>Other Subsidiaries</i>	<i>Eliminations</i>	<i>Consolidated H&R Block</i>
Cash & cash equivalents	\$ –	\$ 167,139	\$ 104,674	\$ –	\$ 271,813
Receivables from customers, brokers, dealers and clearing organizations	–	1,310,804	–	–	1,310,804
Receivables	–	172,409	200,814	–	373,223
Excess of cost over fair value of net tangible assets acquired	–	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	\$ 2,944,262	\$ 1,178,316	\$ (2,453,597)	\$ 4,121,624
Notes payable	\$ –	\$ –	\$ –	\$ –	\$ –
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	228,847	782,058	3,241	1,018,909
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	\$ 2,944,262	\$ 1,178,316	\$ (2,453,597)	\$ 4,121,624

CONDENSED CONSOLIDATING BALANCE SHEET

<i>April 30, 2000</i>					
	<i>H&R Block, Inc. (Guarantor)</i>	<i>BFC (Subsidiary Issuer)</i>	<i>Other Subsidiaries</i>	<i>Eliminations</i>	<i>Consolidated H&R Block</i>
Cash & cash equivalents	\$ –	\$ 256,823	\$ 123,078	\$ –	\$ 379,901
Receivables from customers, brokers, dealers and clearing organizations	–	2,857,379	–	–	2,857,379
Receivables	–	257,987	176,735	–	434,722
Excess of cost over fair value of net tangible assets acquired	–	620,780	474,294	–	1,095,074
Investment in subsidiaries	2,188,835	615	903	(2,188,835)	1,518
Other assets	–	565,741	377,867	667	944,275
Total assets	\$ 2,188,835	\$ 4,559,325	\$ 1,152,877	\$ (2,188,168)	\$ 5,712,869
Notes payable	\$ –	\$ 283,797	\$ –	\$ –	\$ 283,797
Accounts payable to customers, brokers and dealers	–	2,570,200	–	–	2,570,200
Long-term debt	–	745,600	126,796	–	872,396
Other liabilities	4,763	174,697	604,483	(16,056)	767,887
Net intercompany advances	965,483	559,843	(1,542,049)	16,723	–
Stockholders' equity	1,218,589	225,188	1,963,647	(2,188,835)	1,218,589
Total liabilities and stockholders' equity	\$ 2,188,835	\$ 4,559,325	\$ 1,152,877	\$ (2,188,168)	\$ 5,712,869

CONDENSED CONSOLIDATING BALANCE SHEET

April 30, 1999					
	H&R Block, Inc. (Guarantor)	BFC (Subsidiary Issuer)	Other Subsidiaries	Eliminations	Consolidated H&R Block
Cash & cash equivalents	\$ –	\$ 16,026	\$ 177,214	\$ –	\$ 193,240
Receivables	–	686,602	56,699	–	743,301
Excess of cost over fair value of net tangible assets acquired	–	189,784	215,750	–	405,534
Investment in subsidiaries	1,902,665	1,490	226	(1,902,665)	1,716
Other assets	–	229,016	337,369	–	566,385
Total assets	\$ 1,902,665	\$ 1,122,918	\$ 787,258	\$ (1,902,665)	\$ 1,910,176
Notes payable	\$ –	\$ 71,939	\$ –	\$ –	\$ 71,939
Long-term debt	–	249,725	–	–	249,725
Other liabilities	4,764	84,029	437,732	–	526,525
Net intercompany advances	835,914	552,301	(1,388,215)	–	–
Stockholders' equity	1,061,987	164,924	1,737,741	(1,902,665)	1,061,987
Total liabilities and stockholders' equity	\$ 1,902,665	\$ 1,122,918	\$ 787,258	\$ (1,902,665)	\$ 1,910,176

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 operating activities	\$ 2,235	\$ (186,171)	\$ 479,451	\$ –	\$ 295,515
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	–	(33,004)	(57,029)	–	(90,033)
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	–	–	(20,497)	–	(20,497)
Net cash provided by (used in) investing activities	308,656	380,284	(430,333)	–	258,607
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 stock options exercised	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 & cash equivalents	–	(89,684)	(18,404)	–	(108,088)
Cash & cash equivalents at beginning of the year	–	256,823	123,078	–	379,901
Cash & cash equivalents at end of the year	\$ –	\$ 167,139	\$ 104,674	\$ –	\$ 271,813

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

<i>Year Ended April 30, 2000</i>					
	<i>H&R Block, Inc. (Guarantor)</i>	<i>BFC (Subsidiary Issuer)</i>	<i>Other Subsidiaries</i>	<i>Eliminations</i>	<i>Consolidated H&R Block</i>
Net cash provided by operating activities	\$ 3,736	\$ 176,517	\$ 310,325	\$ –	\$ 490,578
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	–	(36,481)	(105,375)	–	(141,856)
Payments made for business acquisitions	–	(817,587)	(154,215)	–	(971,802)
Net intercompany advances	119,697	8,081	(127,778)	–	–
Other, net	–	(75)	(6,430)	–	(6,505)
Net cash used in investing activities	119,697	(643,378)	(330,666)	–	(854,347)
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 stock options exercised	36,958	–	–	–	36,958
Other, net	(4,257)	–	(29,065)	–	(33,322)
Net cash provided by (used in) financing activities	(123,433)	707,658	(33,795)	–	550,430
Net increase (decrease) in cash & cash equivalents	–	240,797	(54,136)	–	186,661
Cash & cash equivalents at beginning of the year	–	16,026	177,214	–	193,240
Cash & cash equivalents at end of the year	\$ –	\$ 256,823	\$ 123,078	\$ –	\$ 379,901

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

Year Ended April 30, 1999					
	H&R Block, Inc. (Guarantor)	BFC (Subsidiary Issuer)	Other Subsidiaries	Eliminations	Consolidated H&R Block
Net cash provided by operating activities	\$ 4,315	\$ (77,843)	\$ 312,802	\$ –	\$ 239,274
Cash flows from investing activities:					
Purchases of available-for-sale securities	–	–	(251,627)	–	(251,627)
Maturities of available-for-sale securities	–	8,161	211,239	–	219,400
Sales of available-for-sale securities	–	90,126	432,126	–	522,252
Purchases of property and equipment, net	–	(6,499)	(83,283)	–	(89,782)
Payments made for business acquisitions	–	–	(123,657)	–	(123,657)
Net intercompany advances	506,211	657,263	(1,163,474)	–	–
Other, net	–	(3,460)	(22,183)	–	(25,643)
Net cash provided by (used in) investing activities	506,211	745,591	(1,000,859)	–	250,943
Cash flows from financing activities:					
Repayments of notes payable	–	(17,276,595)	–	–	(17,276,595)
Proceeds from issuance of notes payable	–	16,593,978	–	–	16,593,978
Dividends paid	(95,004)	–	–	–	(95,004)
Payments to acquire treasury shares	(492,945)	–	–	–	(492,945)
Proceeds from stock options exercised	73,481	–	–	–	73,481
Other, net	3,942	–	(4,690)	–	(748)
Net cash used in financing activities	(510,526)	(682,617)	(4,690)	–	(1,197,833)
Net decrease in cash & cash equivalents	–	(14,869)	(692,747)	–	(707,616)
Cash & cash equivalents at beginning of the year	–	30,895	869,961	–	900,856
Cash & cash equivalents at end of the year	\$ –	\$ 16,026	\$ 177,214	\$ –	\$ 193,240

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 a 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 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.



Mark A. Ernst
President and Chief Executive Officer



Frank J. Cotroneo
Senior Vice President and Chief Financial Officer

REPORT OF INDEPENDENT ACCOUNTANTS

Board of Directors and Shareholders
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 present fairly, in all material respects, the financial position of H&R Block, Inc. and its subsidiaries (the "Company") at April 30, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended April 30, 2001 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.



Kansas City, Missouri
June 19, 2001

FIVE YEARS IN REVIEW

Amounts in thousands

Year Ended April 30	2001	2000	1999	1998	1997
NUMBER OF TAX OFFICES:					
By country:					
United States	9,072	9,210	8,923	8,780	8,554
Canada	944	966	1,032	928	1,021
Australia	350	349	347	334	302
Other	84	89	87	86	60
	10,450	10,614	10,389	10,128	9,937
By type:					
Company-owned	5,827	5,952	5,695	5,339	5,215
Franchised	4,623	4,662	4,694	4,789	4,722
	10,450	10,614	10,389	10,128	9,937
RETURN AND FEE DATA:*					
Tax preparation fees:					
United States	\$ 1,673,043	\$ 1,511,349	\$ 1,332,940	\$ 1,164,776	\$ 1,024,965
Canada	76,101	73,193	74,998	77,913	79,163
Australia	47,021	39,463	35,785	33,027	31,920
Electronic filing fees in the United States	\$ 212,018	\$ 205,538	\$ 201,212	\$ 171,658	\$ 201,021
Discounted return fees in Canada	\$ 28,616	\$ 29,020	\$ 28,458	\$ 30,267	\$ 33,775
Number of returns prepared:					
United States**	16,442	16,276	15,761	14,838	14,302
Regular returns in Canada	1,220	1,258	1,341	1,413	1,573
Discounted returns in Canada	532	547	516	532	583
Australia	486	455	428	406	403
Overseas franchises	54	29	29	27	25
	18,734	18,565	18,075	17,216	16,886
Clients served:					
United States	16,883	16,933	16,541	15,835	15,631
Canada	1,752	1,805	1,857	1,945	2,156
Australia	486	455	428	406	403
Overseas franchises	54	29	29	27	25
	19,175	19,222	18,855	18,213	18,215
Number of U.S. electronic filings:					
Prepared by H&R Block	12,886	11,935	10,359	8,426	5,950
Self-prepared	441	657	780	997	1,329
	13,327	12,592	11,139	9,423	7,279

*Combined return and fee data from company-owned and franchised offices, in local currency.

**Includes returns filed electronically.

Year Ended April 30	2001	2000	1999	1998	1997
REVENUES:					
U.S. tax operations:					
Tax preparation fees	\$ 1,100,269	\$ 995,683	\$ 858,748	\$ 738,546	\$ 643,152
Electronic filing fees	165,302	144,498	143,315	116,031	140,253
Franchise royalties	140,077	127,385	114,181	102,179	98,225
Refund anticipation loan revenue	133,710	89,761	90,070	53,344	54,494
Software sales	58,676	39,546	33,486	19,250	14,089
E-commerce revenues	6,871	1,139	–	–	–
Intrasegment sales	(11,357)	(13,391)	(12,714)	(7,858)	(8,310)
International tax operations:					
Tax preparation fees	50,351	49,283	45,770	50,118	52,292
Discounted return fees	18,631	19,772	18,658	20,477	23,210
Royalties	7,267	8,808	8,299	8,966	9,283
Electronic filing fees	330	197	219	272	409
Mortgage operations	415,802	355,429	255,944	135,778	8,895
Investment services	472,425	268,376	3,989	10	–
Business services	373,820	310,867	47,341	–	–
Unallocated corporate & Other	69,401	54,590	37,359	32,868	30,418
	\$ 3,001,575	\$ 2,451,943	\$ 1,644,665	\$ 1,269,981	\$ 1,066,410
EARNINGS BEFORE INTEREST, TAXES, DEPRECIATION AND AMORTIZATION*					
U.S. tax operations	\$ 507,118	\$ 386,515	\$ 363,493	\$ 289,560	\$ 242,346
International tax operations	12,689	10,363	8,255	16,463	17,766
Mortgage operations	161,751	108,885	78,513	43,501	921
Investment services	78,073	66,889	(1,419)	(1,612)	–
Business services	55,817	46,171	10,461	–	–
Unallocated corporate	(28,202)	(20,782)	(20,553)	(14,345)	(10,355)
	\$ 787,246	\$ 598,041	\$ 438,750	\$ 333,567	\$ 250,678

*Earnings are from continuing operations. Interest includes interest expense on acquisition debt, invest. income, and interest allocated to operating business units.

COMMON STOCK DATA

	Stock Price		Cash Dividend
	High	Low	Paid per Share
2000 FISCAL YEAR:			
Quarter ended 7/31/99	\$ 58.88	\$ 45.50	\$.25
Quarter ended 10/31/99	59.50	38.00	.275
Quarter ended 1/31/00	49.50	39.88	.275
Quarter ended 4/30/00	49.50	39.50	.275
2001 FISCAL YEAR:			
Quarter ended 7/31/00	\$ 42.56	\$ 26.94	\$.275
Quarter ended 10/31/00	37.38	31.31	.30
Quarter ended 1/31/01	44.06	32.81	.30
Quarter ended 4/30/01	55.00	41.80	.30

Traded on the New York Stock Exchange; Ticker Symbol: HRB

BOARD OF DIRECTORS**G. Kenneth Baum**^{3, 4*, 6}

Chairman of the Board, George K. Baum Group, Inc.
Kansas City, Missouri

Thomas M. Bloch^{3, 4, 6}

Educator, Kansas City, Missouri

Robert E. Davis^{1, 2, 5}

Partner, Axiom Corporation, Newark, Delaware

Donna R. Ecton^{1*, 2, 5}

Chairman, President and Chief Executive Officer
EEI, Inc., Paradise Valley, Arizona

Mark A. Ernst³

President and Chief Executive Officer, H&R Block, Inc.

Henry F. Frigon^{3, 4, 6*}

Chairman of the Board
CARSTAR, Inc., Overland Park, Kansas

Roger W. Hale^{1, 2, 5*}

Retired Chairman and Chief Executive Officer
LG&E Energy Corporation, Louisville, Kentucky

Frank L. Salizzoni^{3*}

Chairman of the Board, H&R Block, Inc.

Louis W. Smith^{1, 2*, 3}

President and Chief Executive Officer
Ewing Marion Kauffman Foundation
Kansas City, Missouri

Rayford Wilkins, Jr.^{4, 5, 6}

President and Chief Executive Officer
Pacific Bell Telephone Company and Nevada Bell Telephone
Company, San Ramon, California

Footnotes indicate Board Committees. Asterisk indicates committee chairperson.

1. Audit Committee 2. Compensation Committee 3. Executive Committee 4. Finance Committee 5. Nominating Committee 6. Strategy & Development Committee

EXECUTIVE OFFICERS**Frank L. Salizzoni**

Chairman of the Board

Mark A. Ernst

President and Chief Executive Officer

Jeffery W. Yabuki

Executive Vice President

David F. Byers

Senior Vice President and Chief Marketing Officer

Frank J. Cotroneo

Senior Vice President and Chief Financial Officer

Robert E. Dubrish

President and Chief Executive Officer,
Option One Mortgage Corporation

Thomas P. Fitzgerald

Chief Operating Officer, H&R Block Financial Advisors, Inc.

Stephanie R. Otto

Senior Vice President, Human Resources

Thomas G. Rotherham

President and Chief Executive Officer, RSM McGladrey, Inc.

Bernard M. Wilson

Senior Vice President, Financial Services Group,
Block Financial Corporation

Thomas L. Zimmerman

President, H&R Block Tax Services, Inc.

Cheryl L. Givens

Vice President and Corporate Controller

James H. Ingraham

Vice President, General Counsel and Secretary

Linda M. McDougall

Vice President, Communications

Timothy R. Mertz

Vice President, Corporate Tax

Brian N. Schell

Vice President and Treasurer

Robert A. Weinberger

Vice President, Government Relations

Bret G. Wilson

Vice President, Corporate Development and Risk Management

WORLD HEADQUARTERS: 4400 Main Street, Kansas City, Missouri 64111

GENERAL COUNSEL: James H. Ingraham, Kansas City, Missouri 64111

INDEPENDENT ACCOUNTANTS: PricewaterhouseCoopers LLP, Kansas City, Missouri 64105

TRANSFER AGENT & REGISTER: ChaseMellon Shareholders Services, L.L.P., Ridgefield Park, New Jersey 07660

ANNUAL MEETING: The annual meeting of shareholders of H&R Block, Inc. will be held at the H&R Block City Stage at Union Station, 30 West Pershing Road, Kansas City, Missouri at 9 a.m. Central Time, Wednesday, September 12, 2001. Upon written request, we will furnish without charge to our shareholders a copy of our 2001 Form 10-K as filed with the Securities and Exchange Commission. Requests should be directed to Investor Relations, H&R Block, Inc., 4400 Main Street, Kansas City, Missouri 64111.





H&R BLOCK

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