

H&R Block

2000 | ANNUAL REPORT

H&R Block, Inc. is a diversified company with subsidiaries providing a wide range of financial products and services. This year, H&R Block served 19.2 million taxpayers – more than any other company – through its more than 10,000 tax offices located in the United States, Canada, Australia, the United Kingdom and other parts of the world. H&R Block served another 1.8 million tax clients through its award-winning software program – *Kiplinger TaxCut*® – and through its new online tax preparation services. H&R Block Financial Advisors and Olde Discount Corporation provide consumers with financial planning and investment products. Option One Mortgage Corporation and H&R Block Mortgage Corporation offer a wide range of home mortgage products. RSM McGladrey, Inc. is an accounting, tax and consulting firm with 100 offices nationwide as well as an affiliation with 550 offices in 75 countries as the U.S. member of RSM International. Additional information is available on the company's Web site at www.hrblock.com.

SELECTED FINANCIAL DATA

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

| Year ended April 30 | 2000 | 1999 | 1998 | 1997 | 1996 |
|--|--------------|--------------|--------------|--------------|--------------|
| FOR THE YEAR: | | | | | |
| Total revenues | \$ 2,451,943 | \$ 1,644,665 | \$ 1,269,981 | \$ 1,066,410 | \$ 846,987 |
| Net earnings from continuing operations | \$ 251,895 | \$ 237,795 | \$ 183,788 | \$ 148,132 | \$ 126,669 |
| Net earnings | \$ 251,895 | \$ 215,366 | \$ 392,130 | \$ 47,755 | \$ 177,168 |
| AT YEAR END: | | | | | |
| Total assets | \$ 5,699,350 | \$ 1,910,176 | \$ 2,904,083 | \$ 1,707,058 | \$ 1,755,891 |
| Cash, cash equivalents and marketable securities | \$ 618,665 | \$ 420,649 | \$ 1,590,192 | \$ 539,107 | \$ 745,693 |
| Long-term debt | \$ 872,395 | \$ 249,725 | \$ 249,675 | — | — |
| Stockholders' equity | \$ 1,218,589 | \$ 1,061,987 | \$ 1,341,632 | \$ 999,097 | \$ 1,039,593 |
| Shares outstanding | 98,035 | 97,629 | 106,981 | 104,067 | 103,417 |
| Number of shareholders | 33,557 | 34,624 | 31,177 | 33,517 | 35,634 |
| MEASUREMENTS: | | | | | |
| Per basic share of common stock: | | | | | |
| Net earnings from continuing operations | \$ 2.57 | \$ 2.38 | \$ 1.75 | \$ 1.42 | \$ 1.22 |
| Net earnings | \$ 2.57 | \$ 2.16 | \$ 3.74 | \$.46 | \$ 1.70 |
| Per diluted share of common stock: | | | | | |
| Net earnings from continuing operations | \$ 2.55 | \$ 2.36 | \$ 1.71 | \$ 1.40 | \$ 1.19 |
| Net earnings | \$ 2.55 | \$ 2.14 | \$ 3.65 | \$.45 | \$ 1.67 |
| Other per share data: | | | | | |
| Cash dividends declared | \$ 1.07½ | \$.95 | \$.80 | \$ 1.04 | \$ 1.27¼ |
| Net tangible book value | \$ 1.26 | \$ 6.72 | \$ 9.84 | \$ 8.88 | \$ 9.46 |
| Return on total revenues | 10.3% | 14.5% | 14.5% | 13.9% | 15.0% |
| Return on beginning stockholders' equity | 23.7% | 16.1% | 39.2% | 4.6% | 25.8% |



We're transforming the business from tax preparer to financial partner...

TO OUR SHAREHOLDERS

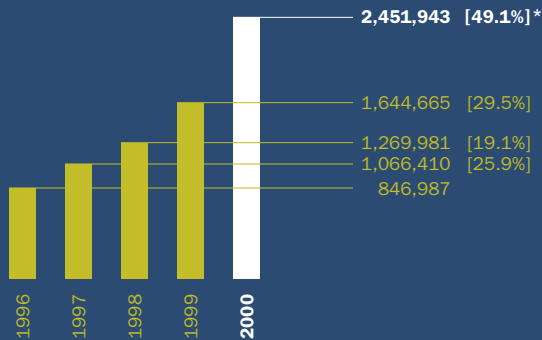
Three years ago we outlined our strategy to transform H&R Block from the world's largest tax preparation company to a leading provider of year-round financial products and services. This year we achieved several critical milestones that moved us significantly closer to our goal.

We acquired the non-attest assets of McGladrey & Pullen, LLP, the country's seventh largest accounting and business consulting firm, as well as Olde Financial Corporation, the parent of one of America's largest discount brokerage firms. Our operations now include the accounting, financial services and mortgage businesses – in addition to our core tax preparation business – needed to attain our vision of becoming *the preferred tax and financial partner for our clients in all markets we serve.*

We are well positioned not only to extend financial services to our more than 19 million tax customers around the world, but also to appeal to a much broader base of clients. These acquisitions expanded our office networks, our product and service offerings, and our distribution capabilities, and they will enable us to develop, package

Consolidated Revenues

In thousands of dollars



*Percentage growth from preceding year

and cross-market financial products and services tailored to our clients' diverse needs.

While we made progress in building our business this year, we also faced several challenges in our U.S. tax operations and new e-commerce initiative. We staffed to meet the increased tax client demand that traditionally occurs in April, however, the end-of-tax-season rush did not meet our expectations. Our new e-commerce operation experienced unexpected technical difficulties, which impacted our ability to generate revenue during key filing periods of the tax season. The result is that although our overall financial performance exceeded fiscal 1999, it did not achieve the earnings results we know we are capable of delivering and have delivered for the past three years.

Revenues increased in fiscal 2000 by 49.1 percent, due in large part to the five months of revenue from Olde and nine months of revenue from McGladrey acquisitions. Earnings per share from continuing operations, however, failed to meet our targeted increase of 15 percent or greater, rising 8.1 percent to \$2.55 per diluted share from \$2.36 per diluted share in fiscal 1999.

Two other factors impacted our earnings. We incurred increased amortization expense related to the intangible assets from the McGladrey and Olde acquisitions. In addition, we experienced a non-recurring loss on the sale of certain assets related to mortgage operations, which was partially offset by a one-time financing gain at Option One Mortgage Corporation.

With this backdrop, we are pleased that the company's balance sheet and cash flows remain strong. Our performance, as measured by earnings from continuing operations before interest (including interest expense on acquisition debt, investment income and interest allocated to operating business units), taxes, depreciation and amortization (EBITDA), grew \$159.3 million to \$598 million, a 36.3 percent increase. Net earnings from continuing operations, excluding the after-tax amortization expense of acquired intangible assets, increased 19.7 percent to \$304.4 million, or \$3.08 per diluted share, in fiscal 2000. This compares to \$254.2 million, or \$2.52 per diluted share, the prior year.

This past year we considered a variety of alternatives for our

strengthening 19 million tax client relationships and growing our customer base...

interest in Option One Mortgage Corporation. The company's intent was to realize the value inherent in a business whose annual loan originations have tripled in three years. Ultimately, we implemented a combination of off-balance sheet financing and whole-loan sale arrangements to free up significant cash. This action will provide stability in dealing with the secondary market and allow us to realize the continuing benefit of Option One's strong performance without bearing as much of the capital risk.

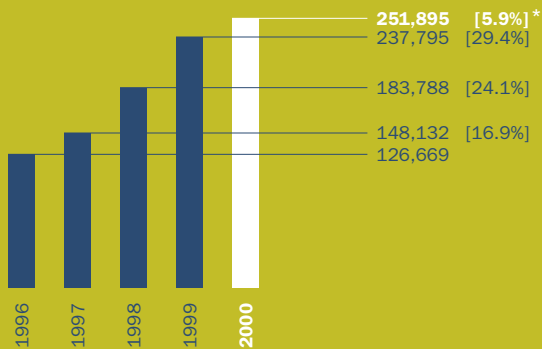
A portion of the capital previously required to fund subprime mortgage loans may be used in a new 12 million share repurchase program, representing 12.2 percent of the shares outstanding at April 30, 2000. Through June 30, 2000, the company has repurchased 4.8 million of the 12 million share authorization. Since February 1998, the company has repurchased 17.8 million shares as part of our continued commitment to build shareholder value.

U.S. TAX SERVICES

With 19.2 million clients worldwide, more than 10,000 offices, and some 90,000 tax preparers, our tax preparation

Net Earnings From Continuing Operations

In thousands of dollars



*Percentage growth from preceding year

network is the core component of our financial partnership strategy. As the center of the H&R Block brand, the steady growth of our traditional tax business has enabled us to create a business model distinct in the competitive financial services industry and one uniquely tailored to the needs of our clients.

Our U.S. tax services subsidiaries expanded their market share again this year, increasing from 13.7 percent in tax year 1999 to 14 percent of tax returns filed with the IRS in tax year 2000. We also grew our share of the market for paid tax preparation from 24.6 percent to 25.3 percent. Fees from tax preparation and related services increased 13.5 percent, a slower growth rate than last year due, in part, to the absence of significant tax law changes. Our retention of clients increased, reflecting our efforts to enhance the value we provide to them.

Despite our gains in revenue, client retention and market share, the tax season did not finish as strongly as we anticipated. Because we did not experience the usual peak in business that typically occurs during the last two weeks of tax season, office staffing levels – and likewise staffing costs – were

higher than necessary and subsequently impacted our margins and earnings.

Our total number of U.S. returns prepared increased 3.3 percent to 16.3 million, while the number of U.S. clients served rose 2.4 percent to 16.9 million taxpayers. More than 74 percent of our U.S. clients chose to file their returns electronically, an increase of 10.5 percent over the prior year.

The pretax earnings contribution from U.S. tax operations, which includes U.S.-based tax services, interests in refund anticipation loans, e-commerce and software products, increased 1.9 percent to \$320 million. Revenues rose 13.7 percent to \$1.4 billion. Pretax margins in our U.S. tax operations declined almost three points to 22.4 percent from 25 percent in fiscal 1999. Our earnings growth was impacted by increased spending on new initiatives and marketing, and expanding our office network.

To improve our performance for fiscal 2001, we have established investment-spending levels assuming conservative growth rates and identified significant opportunities for

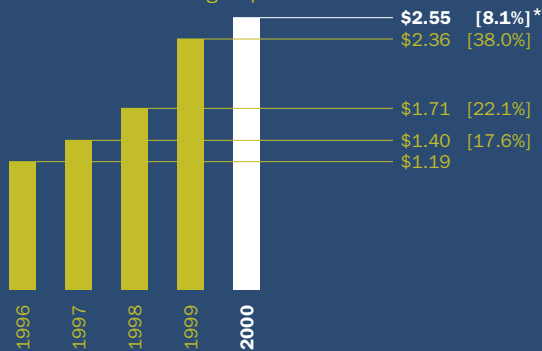
serving customers the way they want

— in person or online...

margin improvement. In addition, we are investing in new information and database marketing systems that we expect will improve our efficiency and productivity.

Our focus on strengthening client relationships led to the introduction and expansion of several services this year, including free electronic filing in most company-owned offices. Tests over the last two years showed that the increase in clients far outweighed the loss in revenue from free e-filing, prompting us to expand the program nationally. E-filing increases accuracy and speeds refunds to our clients. In a similar vein, we tested the idea of offering refund anticipation loans (RALs) with no additional bank fees in several test markets, including California. Companywide, the number of RALs increased 66 percent over last year, due in part to our participation in the IRS debt indicator pilot program, which helped reduce the risk of bad debts. Reduced financial risk for us was translated into an approximate 40 percent reduction in the bank's RAL fees for our clients. While the acceptance rate for our RAL product was strong, we did not see the number of new clients that we had anticipated as a result of broader product availability this year.

Net Earnings Per Diluted Share From Continuing Operations



*Percentage growth from preceding year

Chief Executive Officer | **FRANK L. SALIZZONI** >



We also introduced Refund Rewards™ in cooperation with leading companies like General Motors, Sears, Household International and MasterCard. The program provides discounts on an array of products and services for taxpayers who choose to have the amount of their refund (less tax preparation fees) loaded onto a prepaid spending card. While the number of accounts sold through this program was below our expectations, we received very positive feedback from those who used Refund Rewards. We expect to continue the program next year with some modifications.

Keeping our clients satisfied and coming back year after year is a traditional H&R Block strength and a core element of our partnership strategy. This year our client retention rate increased 1.1 percentage points. Meanwhile, 85 percent of our customers say they are very satisfied with their H&R Block experience. Client retention and satisfaction likewise are goals of our multi-year office renovation initiative. Approximately 1,200 offices were remodeled in fiscal 2000.

SOFTWARE AND E-COMMERCE

H&R Block's Internet presence grew substantially in fiscal

2000, establishing the foundation for a powerful complement to our financial partnership strategy and to our network of offices. Since our enhanced site debuted in January, the number of visitors has grown from 500,000 to 3 million. The strength of the H&R Block brand was evident as the company negotiated strategic alliances with Web portals, including The Microsoft Network™, Yahoo!®, go.com, and AltaVista®, for H&R Block to be the exclusive tax preparation service on their sites.

While the number of U.S. taxpayers preparing and filing their federal returns on the Internet increased from less than 500,000 last year to more than 2 million this year, our research shows that less than one-tenth of 1 percent of H&R Block's tax office clients migrated to the Web. The vast majority of online filers switched from a pencil to a mouse for filing their taxes. Meanwhile, the number of taxpayers turning to paid preparers continues to increase as people place greater value on convenience and their own time.

Our first year of broad-based e-commerce services required significant investments in new staff, hardware and software.

expanding our offerings to include financial products and services...

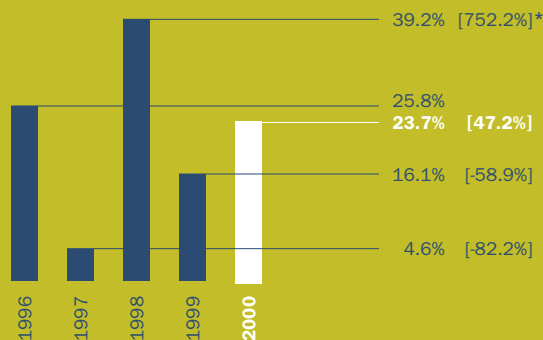
At the same time, we experienced client acquisition and technical difficulties with our online tax preparation program on several occasions throughout the tax season. As a result, our e-commerce operation suffered a pretax loss of \$18.5 million.

Strategically, we view the first year of our e-commerce initiatives as an important learning experience. We're reviewing our technology alternatives, taking steps to enhance our business model, and focusing on integrating our e-commerce strategy across all of our businesses.

Our award-winning TaxCut® tax preparation software continued to enjoy broad consumer and industry support, receiving No. 1 ratings from *Money* magazine, *PC Magazine*, *PC World*, *The Wall Street Journal* and other publications. Microsoft's entry into the tax software business cut into our market share and sales growth, but we still experienced revenue growth of 18.1 percent.

In March, we announced a multi-year strategic alliance with Microsoft Corporation. Under the agreement, H&R Block

Return On Equity



*Percentage growth from preceding year

will provide exclusive Web and desktop-based tax preparation products to users of MSN™ MoneyCentral™ and Microsoft® Money. The companies will collaborate on development of software and online products, and Microsoft will discontinue development of a separate tax software.

INTERNATIONAL OPERATIONS

H&R Block's international offices, located primarily in Canada, Australia and the United Kingdom, showed notable improvement after disappointing results last year. Led by Australia, operations in all three countries demonstrated improved earnings. Pretax earnings nearly doubled to \$4.9 million from \$2.5 million last year. Revenues increased 9.1 percent to \$81.5 million from \$74.7 million in fiscal 1999.

We plan to extend the company's financial partnership strategy into Canada, where we now prepare about 9 percent of the nation's tax returns. We also expect continued growth in Australia, where we are also the market leader.

FINANCIAL SERVICES

With the December 1 acquisition of Olde Financial

Corporation, owner of Olde Discount Corporation, H&R Block created a truly comprehensive financial services organization, combining brokerage, retail mortgage origination, financial planning and tax preparation. Our financial services operation reported a 112.3 percent increase in pretax earnings to \$129.8 million, while revenues rose 140 percent to \$623.8 million.

Olde represented the last key building block to begin implementing our financial partnership strategy, and we were especially pleased with their five-month performance. Olde contributed \$253.9 million in revenues and \$66.8 million in pretax earnings in fiscal 2000, and its acquisition was accretive by 11 cents per diluted share. We've begun enhancing Olde's underlying operation, leveraging its office network to reach more H&R Block clients and building on its foundation to serve more clients across the United States.

We converted 73 of Olde's 181 offices to create a total of 93 new H&R Block Financial Centers, our year-round one-stop financial services offices. We plan to convert the



delivering one-stop financial services year-round...

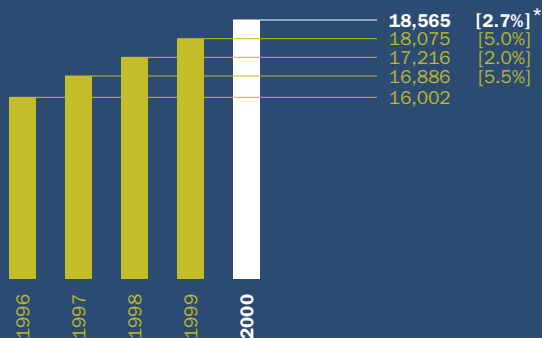
remaining offices over the next two years. We also incorporated Olde's online investing capabilities into hrblock.com.

Option One Mortgage Corporation delivered another strong performance this year. Option One – which includes H&R Block Mortgage Corporation, the company's retail mortgage operation – reported solid earnings of \$95 million, a 49.9 percent increase over the prior year. Revenues rose 45.3 percent to \$322 million. The company had a 58 percent increase in loan originations, totaling \$5.7 billion of loans. H&R Block Mortgage comprised more than 7 percent of Option One's origination volume in the fourth quarter.

Looking to the future, we are continuing to develop a larger portfolio of financial products and services to better meet our customers' needs across multiple delivery channels. The ability to deepen the relationships we have with our clients will provide marketing cost advantages as well as position H&R Block as a more relevant and valuable financial partner.

Tax Returns Prepared Worldwide

In thousands



*Percentage growth from preceding year

BUSINESS SERVICES

The August acquisition of the non-attest assets of McGladrey & Pullen, LLP has allowed us to create a national tax, accounting and consulting firm focused on middle market businesses and high net worth individuals.

We are now working to integrate our seven previously acquired accounting firms under the new RSM McGladrey brand. When the integration is complete, RSM McGladrey will have 100 offices and offer services in 13 of the top 25 U.S. markets.

The first-time inclusion of RSM McGladrey drove the segment's annual results significantly higher, with a 140.3 percent increase in earnings to \$17.1 million on revenues of \$310.9 million.

While our immediate focus is on integrating operations and cultures, longer-term we plan to build a presence in all major U.S. markets and work to make RSM McGladrey the preferred brand in the targeted middle market business segment. The financial partnership strategy that applies in our other businesses is equally applicable here,

only to a different customer base. The fundamental dynamic is trusting relationships between advisors and clients, and we have begun to equip our accounting professionals with more financial solutions tailored to their clients' unique needs.

MANAGEMENT APPOINTMENTS

The building process at H&R Block has been dramatic and often intense in the past few years. We are a larger and more complex company, and we've recognized that critical management skills are needed in specific areas to drive our strategic initiatives. During the past year, we made a number of key management appointments to help lead our organization into the future:

Mark A. Ernst, who joined the company in 1998 as executive vice president and chief operating officer after holding senior management positions at American Express, was elected president and chief operating officer and a member of the Board of Directors last September. In June, the Board approved a succession plan that will make Mark president and chief executive officer on Jan. 1, 2001.

and building for the future.

David F. Byers, a former Foote, Cone & Belding advertising executive, joined the company in June 1999 as senior vice president and chief marketing officer.

Frank J. Cotroneo became senior vice president and chief financial officer in February after serving as CFO at MasterCard International.

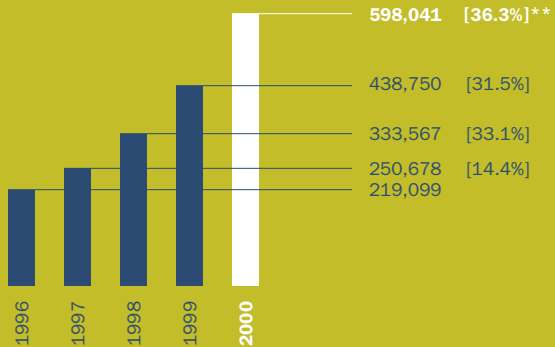
David J. Kasper, former executive vice president and national sales manager for Norwest Investment Services, Inc., became president of the Financial Services Group in February.

Jeffery W. Yabuki was named president of H&R Block International in September. He is a former president and chief executive officer of American Express Tax & Business Services, Inc.

CONCLUSION

Integrating our financial services operations with our core tax business and incorporating e-commerce capabilities across all of our operations continue to be central to our focus ahead. This past year we began to see significant

Earnings Before Interest, Taxes,
Depreciation and Amortization*



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

**Percentage growth from preceding year

benefits that come from deeper client relationships. We are committed to building upon the H&R Block brand and our dominant position in tax services as we expand H&R Block's reach in select financial services and develop into a financial partner with our clients.

This was a pivotal year as we accelerated our transformation and continued to learn a great deal about our clients and how we can better serve their growing financial services needs. We have learned from the challenges of the past year and are encouraged by the excellent opportunities that lie ahead.

Going forward, we believe we have all of the necessary resources – management, business components and financial strength – to execute our strategy effectively. Our focus on building this solid foundation is a demonstration of our continued commitment to delivering long-term value for our shareholders. We are well positioned to become America's most-trusted financial advisor.

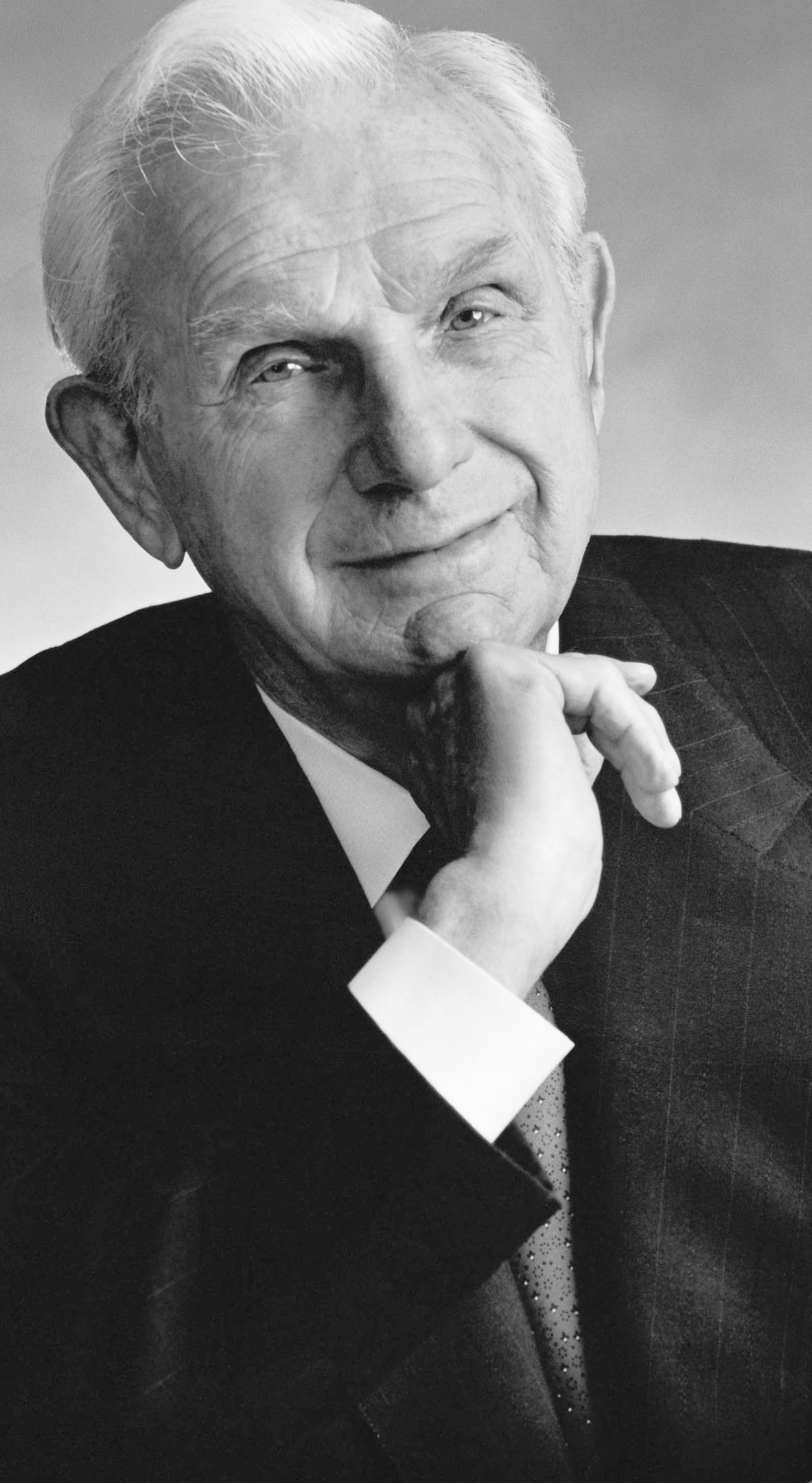
In closing, we'd like to acknowledge the contributions of two long-time members of our Board of Directors and

friends to H&R Block. Morton I. Sosland retires after 37 years of dedicated service. Marvin L. Rich served on our board 38 years until his death on Oct. 7, 1999. We are grateful to them for their personal commitment and guidance to H&R Block.

We also want to thank all of our associates for their skills, energy and dedication in creating the H&R Block of the future and positioning the company with bright prospects for the coming year.

FRANK L. SALIZZONI
Chief Executive Officer

HENRY W. BLOCH
Chairman of the Board



A tribute to our Chairman

and Co-Founder

Henry Bloch's business philosophy cannot be separated from his personal philosophy. Doing more than expected, being true to one's word, and treating people fairly are principles that define his own life and permeate the culture of the company he and his brother Richard founded in 1955.

From a simple desire "to be appreciated by our clients" emerged a company that defined an industry, pioneered the concept of franchising, created a new model for pricing professional services, fought for taxpayer protection, and gave American taxpayers a trusted partner. Over the years, clients have returned the favor with phenomenal loyalty. In Henry's words, "They just keep coming back, year after year after year."

Henry Bloch retires this year from our Board of Directors as one of the most revered figures in American business. His fellow board members join with the more than 90,000 full-time and seasonal H&R Block associates to salute the man whose leadership and personal example are an inspiration to us all.

The path he followed from young entrepreneur to American success story began inauspiciously in the promise-filled days after World War II. Henry had left the University of Michigan to enlist in the Air Force, participating in 31 missions over

Germany. Back from Europe and studying at Harvard, Henry chanced upon a speech by a Harvard professor urging the nation's major insurance companies to help their country by helping small businesses. Returning home to Kansas City, he borrowed \$5,000 and launched United Business Company, catering to the bookkeeping needs of small businesses, and later enlisted Richard to help. Tax return preparation was part of their service, but it became so popular that the brothers decided to make it the sole focus of their business. In 1955, H&R Block was founded, setting in motion a pattern of steady growth that continues today.

By working tirelessly for needed taxpayer protection, Henry Bloch became America's No. 1 taxpayer advocate and an icon of honesty and trust. It is this legacy of trust and partnership with clients that now provides the foundation for H&R Block's future growth.

Kansas Citians know Henry Bloch as a civic leader, an avid supporter of the arts, and a man who gives back to his community in many ways. Friends and associates know him as a man of remarkable character and devotion to principle. Americans know him as their friend in the tax business. And inside the more than 10,000 offices that bear his name, the associates of H&R Block are proud to carry on his work.

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RESULTS OF OPERATIONS

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 Financial Corporation ("OLDE"), parent of OLDE Discount Corporation, a leading discount broker in the United States. OLDE Discount Corporation 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. 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, Inc. ("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 last year, which is primarily engaged in providing accounting, tax and consulting services to business clients, and tax, estate planning and financial planning services to individuals. 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. 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. During the year, the Company also acquired several accounting firms with total purchase prices aggregating \$18.5 million. The acquisitions were all accounted for as purchases, and accordingly, results for each acquisition are included since the date of acquisition.

SIGNIFICANT EVENTS IN FISCAL 1999

On January 29, 1999, the Company completed the sale of its credit card portfolio. The Company recorded a \$20.9 million loss, net of taxes, on the transaction. The consolidated statements of earnings for all periods presented reflect the Company's Credit card operations segment as discontinued operations.

During fiscal year 1999, the Company acquired six regional accounting firms and several smaller market firms, which are included in the Business services segment. The initial purchase prices aggregated \$102.3 million. Each acquisition was accounted for as a purchase, and accordingly, results for each acquisition are included since the date of acquisition.

NEW ACCOUNTING STANDARDS

In June 1998, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended in June 2000 ("SFAS 133"), effective for the Company's fiscal year ending April 30, 2001. However, in June 1999, the FASB issued Statement of Financial Accounting Standards No. 137, "Accounting for

Derivative Instruments and Hedging Activities – Deferral of the Effective Date of FASB Statement No. 133" ("SFAS 137"). SFAS 137 delays the effective date of SFAS 133, which will now be effective for the Company's fiscal year ending April 30, 2002. SFAS 133 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 key criterion for hedge accounting is that the hedging relationship must be highly effective in achieving offsetting changes in fair value or cash flows. The Company does not anticipate that the implementation of SFAS 133 will have a material impact on the consolidated financial statements.

In March 2000, FASB Interpretation No. 44, "Accounting for Certain Transactions Involving Stock Compensation" ("FIN 44") was issued and is effective July 1, 2000. FIN 44 clarifies the application of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," with respect to the definition of an employee, the criteria for noncompensatory plans, the consequences of modifying previous awards and the exchange of stock compensation awards in business combinations. The Company has not yet determined the effect of FIN 44 on the consolidated financial statements.

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 effective date of SAB 101 was delayed and SAB 101 will be effective for the Company in the fourth quarter of fiscal year 2001. The Company is reviewing the requirements of SAB 101 and currently believes that its revenue recognition policy is consistent with the guidance of SAB 101.

2000 COMPARED TO 1999

CONSOLIDATED RESULTS

Revenues increased 49.1% to \$2.5 billion compared to \$1.6 billion last year. 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 last year. Diluted net earnings per share from continuing operations increased to \$2.55 from \$2.36 last year. Earnings from continuing operations before interest (including interest expense on acquisition debt, investment income and interest allocated to operating business units), taxes, depreciation and amortization (EBITDA) increased 36.3% to \$598.0 million from \$438.8 million last year.

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.

Additional information on each of the Company's reportable operating segments follows.

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 revenue includes fees from company-owned tax offices and royalties from franchised offices. This segment also purchases participation interests in refund anticipation loans made by a third-party

lending institution which are offered to tax clients; provides tax preparation and other personal productivity software to the general public; and provides online tax preparation and other services to the general public through the hrblock.com Web site.

Revenues increased 13.7% to \$1.4 billion from \$1.3 billion last year. Combined tax preparation and electronic filing fees generated from clients visiting a tax office increased \$138.1 million, or 13.8%, due to pricing increases and a 2.2% increase in clients served in company-owned offices. Fees associated with participation interests in refund anticipation loans ("RALs") decreased 0.4% to \$89.8 million due to lower pricing as a result of the Internal Revenue Service reinstatement 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 11.6% to \$127.4 million due to pricing increases and a 2.6% increase in clients served by franchises. Revenues from software and online tax services increased \$7.2 million, or 21.5%, due to an increase in electronic filing fees generated through the clients' use of the Company's tax preparation software and online filing through the Web site, 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 last year. 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 last year.

INTERNATIONAL TAX OPERATIONS

This segment is primarily engaged in providing tax return preparation, filing and related services to the general public in Canada, Australia and the United Kingdom. Tax-related service revenue includes fees from company-owned tax offices and royalties from franchised offices.

Revenues increased 9.1% to \$81.5 million from \$74.7 million last year. 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% last year. The increase in revenues and pretax earnings is due to better results in Australia and Canada. EBITDA was \$10.4 million, up from \$8.3 million in 1999.

Australia's revenues increased 20.9% to \$17.6 million from \$14.5 million last year. 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 pretax margins to 18.1% from 15.6% last year.

Canada's revenues increased 4.4% to \$61.1 million from \$58.5 million in 1999. Pretax earnings increased 26.0% to \$3.0 million from \$2.4 million last year. 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 last year. Pretax losses decreased 23.5% to \$2.0 million from \$2.6 million last year. The improved results were primarily due to a March 1999 acquisition and increased revenue in existing tax offices, leveraged over certain fixed costs.

FINANCIAL SERVICES

In the second quarter of fiscal year 2000, management redefined its Mortgage operations segment to reflect a change in how the business is analyzed and evaluated. The redefined segment, Financial services, includes all of the Company's previous mortgage activity along with the start up of financial services operations. The Financial services segment is engaged in the origination, purchase, servicing, securitization and sale of nonconforming and conforming mortgage loans, as well as offering full-service investment opportunities to the general public in the United States. Mortgage origination services are offered through a network of mortgage brokers in 48 states, through 18 H&R Block Financial Centers and through H&R Block Mortgage Corporation retail offices in 48 states. Financial planning and investment advice are offered through 93 H&R Block Financial Centers and 105 OLDE offices, and stocks, bonds, mutual funds and other products and securities are offered through a nationwide network of approximately 1,700 registered representatives.

Revenues increased 140.0% to \$623.8 million from \$259.9 million in 1999. Pretax earnings increased 112.3% to \$129.8 million from \$61.1 million last year. The increase in both revenues and pretax earnings is primarily due to the first time inclusion of OLDE's financial results for the five months ended April 30, 2000, as well as favorable results from mortgage operations. EBITDA increased to \$175.8 million from \$77.1 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.

Option One reported revenues of \$322.0 million, up 45.3% from \$221.6 million last 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 last year, and sold or securitized \$6.1 billion of loans, up 73.7% from \$3.5 billion last year. 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.

BUSINESS SERVICES

This segment is primarily engaged in providing accounting, tax and consulting services to business clients and tax, estate planning and financial planning services to individuals. Services are provided through 100 offices located throughout the United States.

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 in fiscal 2000 of RSM McGladrey financial results for the nine months ended April 30, 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.

INVESTMENT INCOME, NET

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. Intercompany interest increased \$4.3 million to \$9.2 million due to higher funding required for the operating activities of the Financial services segment.

UNALLOCATED CORPORATE AND OTHER

The unallocated corporate pretax loss increased to \$20.9 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.

INCOME TAX EXPENSE

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.

1999 COMPARED TO 1998

CONSOLIDATED RESULTS

Revenues increased 29.5% to \$1.6 billion compared to \$1.3 billion in 1998. Net earnings from continuing operations increased 29.4% to \$237.8 million from \$183.8 million in the prior year. Basic net earnings per share from continuing operations increased to \$2.38 from \$1.75 in the prior year. Diluted net earnings per share from continuing operations increased to \$2.36 compared to \$1.71 in 1998. The net effect of the share repurchase program in 1999 was to increase earnings per share approximately \$.05.

Additional information on each of the Company's reportable operating segments follows.

U.S. TAX OPERATIONS

Revenues increased 20.1% to \$1.3 billion from \$1.0 billion in 1998. Combined tax preparation and electronic filing fees increased \$147.5 million, or 17.3%, due to a 4.5% increase in the number of clients served, higher fees due to complexity and price increases. Fees associated with participation interests in RALs increased 69.1% over 1998 to \$90.2 million reflecting a 40.4% increase in the number of RAL participations over 1998 due to the increase in the Company's participation percentage to 49.9% from 40% in 1998. Royalties increased by \$12.0 million, or 11.7%, reflecting an increase in the number of clients served by franchises as well as increases in pricing. Software revenues increased \$14.2 million, or 74.0%, as a result of increased market penetration.

Operating earnings increased 24.5% to \$314.1 million from \$252.2 million in 1998. The pretax margin increased to 25.0% from 24.1%. The improved margin resulted from higher revenues spread over a significant portion of fixed operating expenses, such as occupancy expenses, a lower bad debt rate associated with the RAL program and improved results from software sales.

INTERNATIONAL TAX OPERATIONS

Revenues decreased 8.6% to \$74.7 million from \$81.8 million in 1998. Pretax earnings declined 78.9% to \$2.5 million from \$11.9 million in the prior year, and the pretax margin decreased to 3.4% from 14.6% in the prior year. The downturn in both revenues and pretax earnings is due to disappointing results from Canada.

As compared to 1998, Canada's revenues declined 9.6% to \$58.5 million and pretax earnings declined 77.6% to \$2.4 million. Results were

affected by several factors. The number of customers served in company-owned offices declined 6.1%, resulting in the revenue decline. The Canadian government's expanded efforts to provide free assistance to low-income Canadians contributed to the decrease in clients served. In addition, operating expenses, such as depreciation, advertising and rent, increased significantly due to continued office expansion.

A weaker Australian dollar also affected international results when translated into U.S. currency. In U.S. dollars, Australia's revenues declined 7.4% to \$14.5 million and pretax earnings increased 1.7% to \$2.3 million. However, in Australian dollars, pretax earnings increased 33.2% to \$4.0 million, while revenues were up 11.6% to \$24.2 million. The increase in Australian dollar revenues and pretax earnings is due to a 5.2% increase in clients served.

In the United Kingdom, the cost of operating 20 company-owned offices for a full year compared with a partial year in 1998 resulted in a pretax loss of \$2.6 million, up 62.8% from the prior year. The Company is continuing its efforts to build a customer base in the U.K.

FINANCIAL SERVICES

In 1999, this segment was defined as Mortgage operations. In fiscal 2000 it was redefined, as previously discussed. Revenues increased 91.4% over 1998 to \$259.9 million. Pretax earnings increased 109.4% to \$61.1 million from \$29.2 million in 1998. The increase in both revenues and pretax earnings is largely due to Option One, which reported revenues of \$221.6 million and pretax earnings of \$63.4 million. Option One originated \$3.6 billion of loans in fiscal 1999, up 74.8% from 1998. At April 30, 1999, Option One's servicing portfolio was 65,300 loans totaling \$6.5 billion.

BUSINESS SERVICES

A new segment in 1999, Business services reported revenues of \$47.3 million and pretax earnings of \$7.1 million. During fiscal year 1999, six regional accounting firms and several smaller market firms were acquired.

INVESTMENT INCOME, NET

Net investment income increased 25.9% to \$32.2 million from \$25.6 million in 1998, primarily as a result of an increase in the amount of cash available for investment throughout fiscal 1999.

UNALLOCATED CORPORATE AND OTHER

The unallocated corporate and administrative pretax loss, including intercompany interest, increased to \$15.8 million from \$8.8 million in the prior year, largely due to increased charitable contributions, increased wages and employee benefits, and lower earnings from the Company's captive insurance subsidiary. Interest expense on long-term debt increased 29.3% to \$17.8 million, reflecting twelve months of expense in fiscal 1999 versus ten months in fiscal 1998.

INCOME TAX EXPENSE

The effective tax rate in fiscal 1999 of 38.0% remained unchanged from 1998.

LIQUIDITY AND CAPITAL RESOURCES

Cash and marketable securities, excluding trading securities, were \$573.3 million at April 30, 2000, compared to \$420.6 million at the end of 1999. Working capital decreased to \$343.1 million at April 30, 2000 from \$533.6 million last year and the working capital ratio declined to

1.10 to 1 from 1.96 to 1 last year. The decline in working capital primarily resulted from an increase in short-term borrowings related to the OLDE acquisition.

The Company maintains lines of credit to support short-term borrowing facilities in the United States and Canada. The credit limits of these lines fluctuate according to the amount of short-term borrowings outstanding during the year.

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, 2000 and 1999 include amounts due from Revenue Canada of \$17.1 million and \$11.3 million, respectively.

The Company incurs short-term borrowings throughout the year to fund receivables associated with its mortgage loans and other financial services programs, and generated by the Business services segment. The Company also used short-term borrowings in January through April to purchase a participation interest ranging from 25% to 49.9% in certain RALs through its agreement with Household Bank. These short-term borrowings in the U.S. are supported by a \$1.89 billion back-up credit facility through November 2000, subject to renewal. Short-term borrowings at April 30, 2000 totaled \$283.8 million, up from \$71.9 million last year. In addition to mortgage loans, the borrowings at year-end primarily relate to a portion of the financing for the OLDE acquisition. The OLDE acquisition was initially funded through short-term borrowings, a portion of which were subsequently paid down through the issuance of Senior Notes.

Historically, short-term borrowings primarily represented funding of mortgage loans. In April 2000, the Company entered into off-balance sheet financing arrangements and whole-loan sale arrangements for Option One. This financing lowered short-term borrowings by approximately \$1.2 billion and included a \$1.0 billion loan securitization, of which \$780 million was delivered in April, and the transfer of \$424 million of loans to an unconsolidated special purpose entity.

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 6% 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, 2000 was comprised of the \$750 million of Senior Notes described above, future payments related to the acquisitions of RSM McGladrey and other accounting firms and capital lease obligations. The current portion of long-term debt was \$68.0 million, up from \$4.7 million last year, and represents payments to be made during fiscal 2001 for accounting firm acquisitions and capital lease obligations. Stockholders' equity at April 30, 2000 and 1999 was \$1.2 billion and \$1.1 billion, respectively. The Company's debt to equity ratio at April 30, 2000 was 1 to 1, compared with .3 to 1 last year.

Utilizing the U.S. commercial paper program and off-balance sheet financing arrangements described above, the Company originates and purchases mortgage loans. As part of its risk management strategy prior to securitization or sale, the Company may choose to hedge its interest rate risk related to its fixed rate mortgage portfolio by selling short

FNMA mortgage-backed securities and utilizing forward loan sale commitments. The Company purchases these financial instruments from certain broker-dealer counterparties. The Company's policy is to utilize such financial instruments only for the purpose of offsetting or reducing the risk of loss associated with a defined or quantified exposure. As a matter of practice, the Company limits the counterparties to major banks and financial institutions.

Management anticipates a higher level of capital expenditures in 2001, exclusive of acquisitions, than in fiscal 2000. Capital expenditures are expected to increase largely due to the full-year effect of significant acquisitions during fiscal 2000, along with deployment of the Company's business 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.

The Company announced in March 2000 its intention to repurchase from time to time up to 12 million of its shares on the open market. At April 30, 2000, 415.5 thousand shares had been repurchased under this authorization. The Company intends 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, availability of excess cash, the ability to maintain financial flexibility, securities laws restrictions and other investment opportunities available.

OTHER ISSUES

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 industry and the markets in which the Company operates and management's assumptions and beliefs relating thereto. Words such as "will," "expect," "intend," "plan," "wish," "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 government and self-regulatory authorities and their impact on the lines of business in which the Company's subsidiaries are involved; unforeseen compliance costs; changes in economic, political or regulatory environments; changes in competition and the effects of such changes; 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; litigation involving the Company; 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

| <i>Year Ended April 30</i> | 2000 | 1999 | 1998 |
|---|---------------------|--------------|--------------|
| REVENUES: | | | |
| Service revenues | \$ 1,924,911 | \$ 1,324,494 | \$ 1,047,181 |
| Product sales | 271,896 | 174,124 | 103,717 |
| Royalties | 137,162 | 123,201 | 111,142 |
| Other | 117,974 | 22,846 | 7,941 |
| | 2,451,943 | 1,644,665 | 1,269,981 |
| EXPENSES: | | | |
| Employee compensation and benefits | 963,536 | 610,866 | 483,951 |
| Occupancy and equipment | 253,171 | 182,701 | 157,995 |
| Interest | 153,500 | 69,338 | 38,899 |
| Depreciation and amortization | 147,218 | 74,605 | 54,972 |
| Marketing and advertising | 140,683 | 90,056 | 71,594 |
| Supplies, freight and postage | 64,599 | 57,157 | 51,705 |
| Bad debt | 51,719 | 71,662 | 53,736 |
| Other | 273,902 | 133,206 | 85,612 |
| | 2,048,328 | 1,289,591 | 998,464 |
| Operating earnings | 403,615 | 355,074 | 271,517 |
| OTHER INCOME: | | | |
| Investment income, net | 8,313 | 32,234 | 25,596 |
| Other, net | 338 | (3,767) | (680) |
| | 8,651 | 28,467 | 24,916 |
| Earnings from continuing operations before income taxes | 412,266 | 383,541 | 296,433 |
| Taxes on earnings | 160,371 | 145,746 | 112,645 |
| NET EARNINGS FROM CONTINUING OPERATIONS | 251,895 | 237,795 | 183,788 |
| Net loss from discontinued operations (less applicable income tax benefit of (\$953) and (\$13,183)) | - | (1,490) | (23,525) |
| Net gain (loss) on sale of discontinued operations (less applicable income taxes (benefit) of (\$13,387) and \$251,701) | - | (20,939) | 231,867 |
| NET EARNINGS | \$ 251,895 | \$ 215,366 | \$ 392,130 |
| BASIC NET EARNINGS PER SHARE: | | | |
| Net earnings from continuing operations | \$ 2.57 | \$ 2.38 | \$ 1.75 |
| Net earnings (loss) from discontinued operations | - | (.22) | 1.99 |
| Net earnings | \$ 2.57 | \$ 2.16 | \$ 3.74 |
| DILUTED NET EARNINGS PER SHARE: | | | |
| Net earnings from continuing operations | \$ 2.55 | \$ 2.36 | \$ 1.71 |
| Net earnings (loss) from discontinued operations | - | (.22) | 1.94 |
| Net earnings | \$ 2.55 | \$ 2.14 | \$ 3.65 |

See notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEETS

Amounts in thousands, except share data

| April 30 | 2000 | 1999 |
|--|---------------------|---------------------|
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$ 379,901 | \$ 193,240 |
| Marketable securities – available-for-sale | 16,966 | 56,881 |
| Marketable securities – trading | 45,403 | – |
| Receivables from customers, brokers, dealers and clearing organizations, less allowance for doubtful accounts of \$759 | 2,857,379 | – |
| Receivables, less allowance for doubtful accounts of \$49,602 and \$61,872 | 434,722 | 743,301 |
| Prepaid expenses and other current assets | 129,172 | 94,000 |
| Total current assets | 3,863,543 | 1,087,422 |
| INVESTMENTS AND OTHER ASSETS: | | |
| Investments in available-for-sale marketable securities | 176,395 | 170,528 |
| Excess of cost over fair value of net tangible assets acquired, less accumulated amortization of \$130,305 and \$64,414 | 1,095,074 | 405,534 |
| Other | 303,672 | 132,470 |
| | 1,575,141 | 708,532 |
| PROPERTY AND EQUIPMENT , at cost less accumulated depreciation and amortization of \$214,145 and \$193,549 | 260,666 | 114,222 |
| | \$ 5,699,350 | \$ 1,910,176 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| CURRENT LIABILITIES: | | |
| Notes payable | \$ 283,797 | \$ 71,939 |
| Accounts payable to customers, brokers and dealers | 2,570,200 | – |
| Accounts payable, accrued expenses and deposits | 222,362 | 163,911 |
| Accrued salaries, wages and payroll taxes | 173,333 | 161,590 |
| Accrued taxes on earnings | 202,779 | 151,659 |
| Current portion of long-term debt | 67,978 | 4,730 |
| Total current liabilities | 3,520,449 | 553,829 |
| LONG-TERM DEBT | 872,396 | 249,725 |
| OTHER NONCURRENT LIABILITIES | 87,916 | 44,635 |
| 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 | 420,594 | 420,658 |
| Accumulated other comprehensive income (loss) | (26,241) | (23,400) |
| Retained earnings | 1,277,324 | 1,130,909 |
| | 1,672,766 | 1,529,256 |
| Less cost of common stock in treasury | 454,177 | 467,269 |
| | 1,218,589 | 1,061,987 |
| | \$ 5,699,350 | \$ 1,910,176 |

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
Amounts in thousands

| <i>Year Ended April 30</i> | 2000 | 1999 | 1998 |
|---|---------------------|--------------|--------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | |
| Net earnings | \$ 251,895 | \$ 215,366 | \$ 392,130 |
| Adjustments to reconcile net earnings to net cash provided by operating activities: | | | |
| Depreciation and amortization | 147,218 | 74,605 | 54,972 |
| Provision for bad debt | 51,719 | 71,662 | 53,736 |
| Accretion of acquisition liabilities | 10,641 | – | – |
| Provision for deferred taxes on earnings | (15,767) | 1,739 | (15,639) |
| Net (gain) loss on sales of operating units | 14,501 | 20,939 | (231,867) |
| Net gain on sales of available-for-sale securities | (11,697) | (4,124) | (1,720) |
| Changes in assets and liabilities, net of acquisitions: | | | |
| Receivables from customers, brokers, dealers and clearing organizations | (893,435) | – | – |
| Receivables | (409,690) | 112,073 | (98,463) |
| Mortgage loans held for sale: | | | |
| Originations and purchases | (5,967,895) | (4,290,207) | (2,330,349) |
| Sales and principal repayments | 6,442,094 | 4,201,187 | 2,443,725 |
| Marketable securities – trading | 6,899 | – | – |
| Prepaid expenses and other current assets | (34,117) | (27,952) | (27,618) |
| Accounts payable to customers, brokers and dealers | 868,012 | – | – |
| Accounts payable, accrued expenses and deposits | 3,732 | 46,029 | (82,469) |
| Accrued salaries, wages and payroll taxes | 13,683 | 55,178 | (10,965) |
| Accrued taxes on earnings | 54,797 | (260,458) | 28,118 |
| Other, net | (27,314) | 16,757 | 21,609 |
| Net cash provided by operating activities | 505,276 | 232,794 | 195,200 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | |
| Purchases of available-for-sale securities | (14,281) | (251,627) | (882,378) |
| Maturities of available-for-sale securities | 57,416 | 211,239 | 38,961 |
| Sales of available-for-sale securities | 211,836 | 522,252 | 1,321,716 |
| Purchases of property and equipment, net | (113,032) | (78,823) | (46,326) |
| Payments made for business acquisitions, net of cash acquired | (971,802) | (123,657) | (265,683) |
| Other, net | (42,918) | (28,441) | (41,508) |
| Net cash provided by (used in) investing activities | (872,781) | 250,943 | 124,782 |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | | |
| Repayments of notes payable | (50,800,661) | (17,276,595) | (11,090,798) |
| Proceeds from issuance of notes payable | 51,012,519 | 16,593,978 | 11,008,018 |
| Proceeds from issuance of long-term debt | 495,800 | – | 249,650 |
| Dividends paid | (105,480) | (95,004) | (83,635) |
| Payments to acquire treasury shares | (50,654) | (492,945) | (18,351) |
| Proceeds from stock options exercised | 36,958 | 79,961 | 58,881 |
| Other, net | (34,316) | (748) | 30 |
| Net cash provided by (used in) financing activities | 554,166 | (1,191,353) | 123,795 |
| Net increase (decrease) in cash and cash equivalents | 186,661 | (707,616) | 443,777 |
| Cash and cash equivalents at beginning of the year | 193,240 | 900,856 | 457,079 |
| Cash and cash equivalents at end of the year | \$ 379,901 | \$ 193,240 | \$ 900,856 |
| SUPPLEMENTAL CASH FLOW DISCLOSURES: | | | |
| Income taxes paid | \$ 122,447 | \$ 394,273 | \$ 102,396 |
| Interest paid | 141,577 | 71,431 | 50,302 |

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, 1997 | 108,973 | \$ 1,089 | 407 | \$ 4 | \$ 502,308 | \$ 702,098 | (4,905) | \$ (188,375) | \$ (18,027) | \$ 999,097 |
| Net earnings for the year | - | - | - | - | - | 392,130 | - | - | - | - |
| Unrealized loss on translation | - | - | - | - | - | - | - | - | (5,290) | - |
| Change in net unrealized gain on marketable securities | - | - | - | - | - | - | - | - | (1,200) | - |
| Comprehensive income | - | - | - | - | - | - | - | - | - | 385,640 |
| Stock options exercised | - | - | 32 | - | (1,832) | - | 1,578 | 60,882 | - | 59,050 |
| Conversion of Convertible Preferred Stock | - | - | (436) | (4) | (68,018) | - | 1,744 | 68,022 | - | - |
| Cancellation of Convertible Preferred Stock | - | - | (1) | - | (123) | (46) | - | - | - | (169) |
| Acquisition of treasury shares | - | - | - | - | - | - | (409) | (18,351) | - | (18,351) |
| Cash dividends paid - \$.80 per share | - | - | - | - | - | (83,635) | - | - | - | (83,635) |
| Balances at April 30, 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 |

See notes to consolidated financial statements.

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 62% of total revenues for the year ended April 30, 2000 were generated from tax return preparation, electronic filing of tax returns and other tax-related services. Certain of these subsidiaries also originate, purchase, service, sell and securitize nonconforming and conforming mortgages, offer investment services through broker-dealers, offer personal productivity software, purchase participation interests in refund anticipation loans made 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, securities purchased under agreements to resell and short-term highly liquid investments with maturities of three months or less when purchased. For purposes of the consolidated statements of cash flows, the Company considers all highly liquid debt 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 stockholders' equity.

Residual interests in securitizations of real estate mortgage investment conduits 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 a discounted cash flow model, with unrealized gains and losses included in other comprehensive income. The residual interests are amortized over the estimated lives of the loans to which they relate.

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: All marketable securities–trading 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.

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, on deposit with or receivable 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 mortgage loans held for sale and business services accounts receivable. 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 15 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 2000, 1999, or 1998.

Depreciation and amortization: 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.

Notes payable: The Company uses short-term borrowings to finance temporary liquidity needs and various financial activities conducted by its subsidiaries. The weighted average interest rates of notes payable at April 30, 2000 and 1999 were 6.2% and 4.9%, respectively.

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 mortgage loans and customer accounts. Service revenues are recorded in the period in which service is performed. Commissions revenue is recognized on a trade-date 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. 125, "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 deferred compensation, accrued expenses, depreciation and mortgage servicing rights.

The Company has a Tax Sharing Agreement with 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.

Hedging and forward commitments: As a part of its interest rate risk management strategy, the Company may choose to hedge its interest rate risk related to its fixed rate mortgage portfolio and debt by selling short securities and utilizing forward commitments. The Company classifies these instruments as hedges of specific loan receivables or debt. The gains and losses derived from these instruments are deferred and included in the carrying amounts of the related hedged items and ultimately recognized in earnings.

Stock plans: Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"), allows companies to continue under the approach set forth in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"), for recognizing stock-based compensation expense in the financial statements, but encourages companies to adopt the provisions of SFAS 123 based on the estimated fair value of employee stock options. Companies electing to retain the approach under APB 25 are required to disclose pro forma net earnings and net earnings per share in the notes to the financial statements, as if they had adopted the fair value accounting method under SFAS 123. The Company has elected to retain its current accounting approach under APB 25.

New accounting standards: In June 1998, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standards No. 133, “Accounting for Derivative Instruments and Hedging Activities,” as amended in June 2000 (“SFAS 133”), effective for the Company’s fiscal year ending April 30, 2001. However, in June 1999, the FASB issued Statement of Financial Accounting Standards No. 137, “Accounting for Derivative Instruments and Hedging Activities — Deferral of the Effective Date of FASB Statement No. 133” (“SFAS 137”). SFAS 137 delays the effective date of SFAS 133, which will now be effective for the Company’s fiscal year ending April 30, 2002. SFAS 133 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 key criterion for hedge accounting is that the hedging relationship must be highly effective in achieving offsetting changes in fair value or cash flows. The Company does not anticipate that the implementation of SFAS 133 will have a material impact on the consolidated financial statements.

In March 2000, FASB Interpretation No. 44, “Accounting for Certain Transactions Involving Stock Compensation” (“FIN 44”) was issued and is effective July 1, 2000. FIN 44 clarifies the application of APB 25, “Accounting for Stock Issued to Employees,” with respect to the definition of an employee, the criteria for noncompensatory plans, the consequences of modifying previous awards and the exchange of stock compensation awards in business combinations. The Company has not yet determined the effect of FIN 44 on the consolidated financial statements.

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 effective date of SAB 101 was delayed and SAB 101 will be effective for the Company in the fourth quarter of fiscal year 2001. The Company is reviewing the requirements of SAB 101 and currently believes that its revenue recognition policy is consistent with the guidance of SAB 101.

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> | 2000 | 1999 | 1998 |
|--|-------------------|------------|------------|
| Net earnings from continuing operations | \$ 251,895 | \$ 237,795 | \$ 183,788 |
| Basic weighted average shares | 98,033 | 99,761 | 104,829 |
| Effect of dilutive securities: | | | |
| Common and convertible preferred stock options | 895 | 1,058 | 1,229 |
| Convertible preferred stock | 1 | 2 | 1,515 |
| Dilutive potential common shares | 98,929 | 100,821 | 107,573 |
| Net earnings per share from continuing operations: | | | |
| Basic | \$ 2.57 | \$ 2.38 | \$ 1.75 |
| Diluted | 2.55 | 2.36 | 1.71 |

Diluted net earnings per share excludes the impact of common stock options of 3,039,195, 149,370 and 244,071 shares for 2000, 1999 and 1998, 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> | 2000 | 1999 |
|---|-------------------|------------|
| Cash and interest-bearing deposits | \$ 162,363 | \$ 110,831 |
| Other interest-bearing securities | 183,144 | 2,525 |
| Securities purchased under agreements to resell | 32,000 | - |
| Certificates of deposit | 2,394 | 2,384 |
| Municipal bonds | - | 77,500 |
| | \$ 379,901 | \$ 193,240 |

MARKETABLE SECURITIES - AVAILABLE-FOR-SALE

The amortized cost and market value of marketable securities classified as available-for-sale at April 30, 2000 and 1999 are summarized below:

| | 2000 | | | | 1999 | | | |
|---------------------------|-------------------|------------------------------|-------------------------------|-------------------|-------------------|------------------------------|-------------------------------|-----------------|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Market Value | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Market Value |
| <i>Current:</i> | | | | | | | | |
| Asset-backed securities | \$ - | \$ - | \$ - | \$ - | \$ 45,038 | \$ 1 | \$ 28 | \$ 45,011 |
| Corporate bonds | - | - | - | - | 9,300 | - | - | 9,300 |
| Municipal bonds and notes | 17,021 | - | 55 | 16,966 | 2,564 | 6 | - | 2,570 |
| | 17,021 | - | 55 | 16,966 | 56,902 | 7 | 28 | 56,881 |
| <i>Noncurrent:</i> | | | | | | | | |
| Residual interests | 118,977 | 5,236 | 1,169 | 123,044 | 90,566 | 2,326 | 219 | 92,673 |
| Municipal bonds | 49,566 | 2 | 645 | 48,923 | 72,902 | 274 | 88 | 73,088 |
| Common stock | 4,025 | 571 | 168 | 4,428 | 2,419 | 2,362 | 14 | 4,767 |
| | 172,568 | 5,809 | 1,982 | 176,395 | 165,887 | 4,962 | 321 | 170,528 |
| | \$ 189,589 | \$ 5,809 | \$ 2,037 | \$ 193,361 | \$ 222,789 | \$ 4,969 | \$ 349 | \$ 227,409 |

Proceeds from the sales of available-for-sale securities were \$211,836, \$522,252 and \$1,321,716 during 2000, 1999 and 1998, respectively. Gross realized gains on those sales during 2000, 1999 and 1998 were \$12,177, \$4,711 and \$1,826, respectively; gross realized losses were \$480, \$587 and \$106, respectively.

Contractual maturities of available-for-sale debt securities at April 30, 2000 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 | \$ 17,021 | \$ 16,966 |
| After one year through five years | 40,359 | 39,875 |
| After five years through 10 years | 9,207 | 9,048 |
| | \$ 66,587 | \$ 65,889 |

The Company securitized \$3,767,010 and \$2,456,910 in mortgage loans during the years ended April 30, 2000 and 1999, resulting in residual interests with an allocated carrying value of \$245,801 and \$158,485, respectively. In fiscal 2000, the Company securitized \$248,555 of these residual interests in net interest margin transactions. The remaining residual interests from the securitizations during fiscal year 2000 of \$28,042 were treated as noncash investing activities in the consolidated statement of cash flows for the year ended

April 30, 2000. In fiscal 1999, the Company securitized \$91,355 of these residual interests in a net interest margin transaction. The remaining residual interests from the securitizations during 1999 of \$39,782 were treated as noncash investing activities in the consolidated statement of cash flows for the year ended April 30, 1999.

RECEIVABLES

Receivables consist of the following:

| <i>April 30</i> | 2000 | 1999 |
|--|------------|------------|
| Mortgage loans held for sale | \$ 163,033 | \$ 636,687 |
| Business services accounts receivable | 148,109 | 40,609 |
| Participation in refund anticipation loans | 47,581 | 51,074 |
| Software receivables | 31,721 | 25,484 |
| Other | 93,880 | 51,319 |
| | 484,324 | 805,173 |
| Allowance for doubtful accounts | 49,602 | 61,872 |
| | \$ 434,722 | \$ 743,301 |

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> | 2000 | 1999 |
|-------------------------------|--------------|------------|
| Goodwill | \$ 636,350 | \$ 423,521 |
| Customer relationships | 387,775 | 23,486 |
| Assembled workforce | 104,044 | 13,765 |
| Trade names | 55,638 | - |
| Management infrastructure | 29,147 | - |
| Noncompete agreements | 12,425 | 9,176 |
| | 1,225,379 | 469,948 |
| Less accumulated amortization | 130,305 | 64,414 |
| | \$ 1,095,074 | \$ 405,534 |

Amortization expense for 2000, 1999 and 1998 amounted to \$66,346, \$24,378 and \$17,334, respectively.

PROPERTY AND EQUIPMENT

A summary of property and equipment follows:

| <i>April 30</i> | 2000 | 1999 |
|--|------------|------------|
| Land | \$ 42,338 | \$ 3,060 |
| Buildings | 74,260 | 24,292 |
| Computers and other equipment | 290,386 | 226,388 |
| Leasehold improvements | 67,827 | 54,031 |
| | 474,811 | 307,771 |
| Less accumulated depreciation and amortization | 214,145 | 193,549 |
| | \$ 260,666 | \$ 114,222 |

Depreciation and amortization expense for 2000, 1999 and 1998 amounted to \$74,866, \$49,302 and \$37,197, respectively.

The Company has an agreement to lease real estate and buildings under a noncancelable capital lease for the next 20 years with an option to purchase after seven 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 has obligations related to acquisitions of accounting firms of \$169,103 and \$4,730 at April 30, 2000 and 1999, 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 May 2001 to January 2005. These payments represent additional purchase price and do not carry an interest rate.

The Company has mortgage notes and capitalized lease obligations of \$25,671 at April 30, 2000 that are collateralized by land, buildings and equipment with a cost of \$31,040 at April 30, 2000. The obligations are due at varying dates for up to 20 years.

The aggregate payments required to retire long-term debt are \$67,978, \$39,698, \$38,352, \$34,392, \$253,572 and \$506,382 in 2001, 2002, 2003, 2004, 2005 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 \$896,894 and \$256,750 at April 30, 2000 and 1999, 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 \$39,862 and \$33,628 at April 30, 2000 and 1999, respectively, to reflect the liability under these plans. The Company purchased whole-life insurance contracts on certain related directors and employees to recover distributions made or to be made under the plans and has recorded 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"), 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, 2000 is \$36,128 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, 2000, 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. In fiscal 2000, the Company issued 84 shares of its Common Stock upon conversion of 21 shares of the Convertible Preferred 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, 2000 and 1999, the net unrealized holding gain on available-for-sale securities was \$2,574 and \$2,768, respectively, and the foreign currency translation adjustment was \$(28,815) and \$(26,168), respectively.

| <i>Year Ended April 30</i> | 2000 | 1999 | 1998 |
|--|-------------------|------------|------------|
| Net earnings | \$ 251,895 | \$ 215,366 | \$ 392,130 |
| Unrealized gains on securities (less applicable taxes (benefit) of (\$124), \$1,619 and (\$736)): | | | |
| Unrealized holding gains (losses) arising during period (less applicable taxes (benefit) of \$4,426, \$3,186 and (\$82)) | 6,953 | 5,199 | (134) |
| Less: Reclassification adjustment for gains included in earnings (less applicable taxes of \$4,550, \$1,567 and \$654) | (7,147) | (2,557) | (1,066) |
| Foreign currency translation adjustments | (2,647) | (1,525) | (5,290) |
| Comprehensive income | \$ 249,054 | \$ 216,483 | \$ 385,640 |

STOCK OPTION PLANS

The Company has three stock option plans: the 1993 Long-Term Executive Compensation Plan, the 1989 Stock Option Plan for Outside Directors and a plan for eligible seasonal employees. 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 starting one year after the date of the grant, on a cumulative basis at the annual rate of 33% of the total number of option shares or 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.

The 1999 Stock Option Plan for Seasonal Employees was approved by the shareholders in September 1999 to replace the previous plan for seasonal employees which had expired in December 1998, except for options outstanding thereunder. These plans provided for the grant of options on June 30, 1999, 1998 and 1997 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, 2000, 1999 and 1998 under these plans were as follows:

| | 2000 | | 1999 | | 1998 | |
|--|--------------------|---------------------------------|-------------|---------------------------------|-------------|---------------------------------|
| | Shares | Weighted-Average Exercise Price | Shares | Weighted-Average Exercise Price | Shares | Weighted-Average Exercise Price |
| Options outstanding, beginning of year | 5,726,494 | \$ 38.03 | 5,110,392 | \$ 32.71 | 6,217,699 | \$ 35.78 |
| Options granted | 5,059,802 | 50.16 | 4,127,742 | 42.20 | 3,784,925 | 32.28 |
| Options exercised | (1,032,251) | 36.12 | (2,196,673) | 32.67 | (1,608,233) | 33.63 |
| Options which expired | (1,313,431) | 46.50 | (1,314,967) | 39.40 | (3,283,999) | 37.58 |
| Options outstanding, end of year | 8,440,614 | 44.22 | 5,726,494 | 38.03 | 5,110,392 | 32.71 |
| Shares exercisable, end of year | 5,206,457 | 42.70 | 3,505,737 | 37.62 | 3,428,615 | 32.87 |
| Shares reserved for future grants, end of year | 11,037,281 | | 2,966,135 | | 13,159,852 | |

A summary of stock options outstanding and exercisable at April 30, 2000 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 |
| \$13.2813 – 21.25 | 15,900 | 1 year | \$ 21.25 | 15,900 | \$ 21.25 |
| \$27.50 – 33.75 | 1,271,038 | 7 years | 31.26 | 983,649 | 30.97 |
| \$34.00 – 43.8125 | 3,299,765 | 5 years | 41.72 | 2,179,932 | 41.47 |
| \$44.00 – 52.00 | 3,217,611 | 5 years | 49.76 | 2,026,976 | 49.89 |
| \$55.0625 – 55.625 | 636,300 | 10 years | 55.62 | – | – |
| | 8,440,614 | | | 5,206,457 | |

The Company applies APB 25 in accounting for its stock option plans, under which no compensation cost has been recognized for stock option awards. Had compensation cost for the stock option 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 on a pro forma basis would have been as follows:

| Year Ended April 30 | 2000 | 1999 | 1998 |
|---------------------------------|------------|------------|------------|
| Net earnings: | | | |
| As reported | \$ 251,895 | \$ 215,366 | \$ 392,130 |
| Pro forma | 237,544 | 202,421 | 379,985 |
| Basic net earnings per share: | | | |
| As reported | \$ 2.57 | \$ 2.16 | \$ 3.74 |
| Pro forma | 2.42 | 2.03 | 3.62 |
| Diluted net earnings per share: | | | |
| As reported | \$ 2.55 | \$ 2.14 | \$ 3.65 |
| Pro forma | 2.41 | 2.01 | 3.55 |

For the purposes of computing the pro forma effects of stock option grants under the fair value accounting method, the fair value of each stock option 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 2000, 1999 and 1998 was \$9.09, \$5.84 and \$5.91, respectively. The following weighted-average assumptions were used for grants during the following periods:

| Year Ended April 30 | 2000 | 1999 | 1998 |
|-------------------------|---------|---------|---------|
| Risk-free interest rate | 5.75% | 5.41% | 6.21% |
| Expected life | 3 years | 3 years | 3 years |
| Expected volatility | 30.67% | 21.86% | 31.99% |
| Dividend yield | 2.20% | 2.36% | 2.48% |

SHAREHOLDER RIGHTS PLAN

On July 25, 1998, the rights under the July 1988 shareholder rights plan, as amended, expired and the rights under a shareholder rights plan adopted by the Company's Board of Directors on March 25, 1998 became effective. Like the 1988 plan, the 1998 plan was adopted to deter coercive or unfair takeover tactics and to prevent a potential acquirer from gaining control of the Company without offering a fair price to all of the Company's stockholders. Under the 1998 plan, a dividend of one right (a "Right") per share was declared and paid on each share of the Company's Common Stock outstanding on July 25, 1998. Rights automatically attach to shares issued after such date.

Under the 1998 plan, a Right becomes exercisable when a person or group of persons acquires beneficial ownership of 15% or more of the outstanding shares of the Company's Common Stock without the prior written approval of the Company's Board of Directors (an "Unapproved Stock Acquisition"), and at the close of business on the tenth business day following the commencement of, or the public

announcement of an intent to commence, a tender offer that would result in an Unapproved Stock Acquisition. The Company may, prior to any Unapproved Stock Acquisition, amend the plan to lower such 15% threshold to not less than the greater of (1) any percentage greater than the largest percentage of beneficial ownership by any person or group of persons then known by the Company, and (2) 10% (in which case the acquisition of such lower percentage of beneficial ownership then constitutes an Unapproved Stock Acquisition and the Rights become exercisable). When exercisable, the registered holder of each Right may purchase from the Company one one-hundredth of a share of a class of the Company's Participating Preferred Stock, without par value, at a price of \$215.00, 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 \$.00125 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> | 2000 | 1999 | 1998 |
|---|------------------|-----------|----------|
| Legal and professional | \$ 47,934 | \$ 13,164 | \$ 5,890 |
| Refund anticipation loan servicing fees | 28,820 | 15,028 | 7,889 |
| Travel and entertainment | 26,695 | 15,094 | 11,548 |
| Purchased services | 25,245 | 18,653 | 10,460 |
| Taxes and licenses | 17,469 | 14,531 | 11,392 |
| Loan servicing | 15,821 | 11,158 | 5,851 |
| Brokerage commissions and trading fees | 15,639 | 3,137 | 39 |

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> | 2000 | 1999 | 1998 |
|----------------------------|-------------------|------------|------------|
| United States | \$ 408,024 | \$ 381,443 | \$ 285,100 |
| Foreign | 4,242 | 2,098 | 11,333 |
| | \$ 412,266 | \$ 383,541 | \$ 296,433 |

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> | 2000 | 1999 | 1998 |
|----------------------------|-------------------|------------|------------|
| Current: | | | |
| Federal | \$ 152,570 | \$ 123,035 | \$ 107,595 |
| State | 21,492 | 16,128 | 14,402 |
| Foreign | 2,888 | 1,553 | 5,483 |
| | 176,950 | 140,716 | 127,480 |
| Deferred: | | | |
| Federal | (13,447) | 5,114 | (12,047) |
| State | (1,894) | 670 | (1,613) |
| Foreign | (1,238) | (754) | (1,175) |
| | (16,579) | 5,030 | (14,835) |
| | \$ 160,371 | \$ 145,746 | \$ 112,645 |

Provision is not made for possible income taxes payable upon distribution of unremitted earnings of foreign subsidiaries. Such unremitted earnings aggregated \$61,202 at December 31, 1999. Management believes the cost to repatriate these earnings would not be material.

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

| <i>Year Ended April 30</i> | 2000 | 1999 | 1998 |
|---|---------------|--------|--------|
| Statutory rate | 35.0% | 35.0% | 35.0% |
| Increases (reductions) in income taxes resulting from: | | | |
| State income taxes, net of Federal income tax benefit | 3.1% | 2.9% | 2.8% |
| Foreign income taxes, net of Federal income tax benefit | 0.1% | 0.2% | .5% |
| Amortization of intangibles | 2.6% | 0.3% | 0.4% |
| Nontaxable Federal income | (0.3%) | (0.7%) | (0.1%) |
| Other | (1.6%) | 0.3% | (0.6%) |
| Effective rate | 38.9% | 38.0% | 38.0% |

A summary of deferred taxes follows:

| <i>April 30</i> | 2000 | 1999 |
|---|--------------------|-------------|
| Gross deferred tax assets: | | |
| Accrued expenses | \$ (17,729) | \$ (17,999) |
| Allowance for credit losses | (8,800) | (12,144) |
| Mark-to-market adjustments | - | (2,909) |
| Current | (26,529) | (33,052) |
| Deferred compensation | (18,509) | (14,577) |
| Depreciation | (12,879) | (5,222) |
| Residual interest income | (6,809) | - |
| Noncurrent | (38,197) | (19,799) |
| Gross deferred tax liabilities: | | |
| Mark-to-market adjustments | 6,572 | - |
| Accrued income | 198 | 630 |
| Current | 6,770 | 630 |
| Mortgage servicing rights | 12,608 | 4,910 |
| Depreciation | 1,329 | 597 |
| Deferred gain on sale of residual interests | - | 12,103 |
| Residual interest income | - | 6,359 |
| Noncurrent | 13,937 | 23,969 |
| Net deferred tax assets | \$ (44,019) | \$ (28,252) |

ACQUISITIONS

On December 1, 1999, the Company completed the purchase of all the issued and outstanding shares of capital stock of OLDE for \$350,000 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. 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>Year Ended 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.

On June 17, 1997, the Company acquired Option One, a company primarily engaged in the origination, purchase, servicing, securitization and sale of nonconforming mortgage loans. The cash purchase price was \$218,083, consisting of \$28,083 in adjusted stockholder’s equity and a premium of \$190,000. In addition, the Company made cash payments of \$456,163 to Option One’s former parent to eliminate intercompany loans made to Option One to finance its mortgage loan operations. The \$456,163 payment was recorded as an intercompany loan and was repaid to the Company by the end of June 1997 after Option One sold the mortgage loans to a third party in the ordinary course of business. The acquisition was accounted for as a purchase and, accordingly, Option One’s results are included since the date of acquisition. The fair value of tangible assets acquired, including cash, and liabilities assumed was \$683,777 and \$463,877, respectively. Liabilities assumed were treated as a noncash investing activity in the consolidated statement of cash flows for the year ended April 30, 1998. The excess of cost over fair value of net tangible assets acquired was \$183,077 and is being amortized on a straight-line basis over 15 years. The acquisition was ultimately financed with the issuance of \$250,000 in Senior Notes during the second quarter of fiscal 1998.

During fiscal 2000, 1999 and 1998, 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

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.

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.

On January 31, 1998, the Company completed the sale of its 80.1% interest in CompuServe to a subsidiary of WorldCom, Inc. (“WorldCom”). The Company recorded a \$231,867 gain, net of taxes, on the transaction. The sale was structured as a stock-for-stock transaction in which the Company received 30,108,610 shares of WorldCom stock in exchange for its 80.1% ownership interest (74,200,000 shares) in CompuServe stock. The Company completed the transaction through its receipt of \$1,032,699 in net proceeds from the monetization of 100% of its WorldCom stock in a block trade on February 2, 1998. As a part of the CompuServe transaction, the Company has agreed to indemnify WorldCom and CompuServe against 80.1% of any losses and expenses incurred by them with respect to litigation and claims brought against CompuServe, any of its current or former officers, directors, employees, agents or underwriters relating to CompuServe’s initial public offering in April 1996. The shares of WorldCom stock received in the stock-for-stock transaction were treated as a noncash investing activity in the consolidated statement of cash flows for the year ended April 30, 1998. The consolidated financial statements for the year ended April 30, 1998 reflect CompuServe as discontinued operations.

Revenues from discontinued operations for the years ended April 30, 1999, and 1998 were \$24,143 and \$665,649, respectively.

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, 2000, for fiscal 2001, 2002, 2003, 2004 and 2005 aggregated \$141,385, \$106,383, \$70,728, \$34,627 and \$12,805, respectively, with no significant commitments extending beyond that period of time. The Company’s rent expense for the years 2000, 1999 and 1998 aggregated \$135,823, \$99,654 and \$84,743, 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 \$546,473 and \$416,323 at April 30, 2000 and 1999, 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, 2000, the Company maintained a \$1,390,000 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 is responsible for servicing mortgage loans for others of \$8,733,158, subservicing loans of \$2,569,332, and the master servicing of \$757,034 previously securitized mortgage loans held in trust at April 30, 2000. Fiduciary bank accounts that are maintained on behalf of investors and for impounded collections were \$197,191 at April 30, 2000. These bank accounts are not assets of the Company and are not reflected in the accompanying consolidated financial statements.

As of April 30, 2000, the Company had provided clearing organizations with bank letters of credit totaling \$131,000 that satisfied margin deposit requirements of \$123,500. 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.

At April 30, 2000 the Company has provided for the pending settlement of class action lawsuits involving refund anticipation loans. The Company has not had any final judgments rendered against it in any of the suits filed on this issue and, 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 have been named as defendants in six lawsuits pending before the state and Federal courts in Columbus, Ohio. All suits allege 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 also alleges certain oral omissions and misstatements in connection with such offering. Relief sought in the lawsuits is unspecified, but includes pleas for rescission and damages. One Federal lawsuit names the lead underwriters of CompuServe's initial public offering as additional defendants and as representatives of a defendant class consisting of all underwriters who participated in such offering. The Federal suits were consolidated, the defendants filed a motion to dismiss the consolidated suits, the district court stayed all proceedings pending the outcome of the state court suits, and the United States Court of Appeals for the Sixth Circuit affirmed such stay. The four state court lawsuits also allege violations of various state statutes and common law of negligent misrepresentation in addition to the 1933 Act claims. The state lawsuits were consolidated for discovery purposes and defendants filed a motion for summary judgment covering all four state lawsuits. As a part of the sale of its interest in CompuServe, the Company agreed to indemnify WorldCom and CompuServe against 80.1% of any losses and expenses incurred by them with respect to these lawsuits. The defendants are vigorously defending these lawsuits. In the opinion of management, the ultimate resolution of these suits will not have a material adverse impact on the Company's consolidated financial position or results of operations.

FINANCIAL INSTRUMENTS

The Company sells short FNMA mortgage-backed securities to certain broker-dealer counterparties. 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. The effectiveness of the hedge is measured by a historical and probable future high correlation of changes in the fair value of the hedging instruments with changes in the value of the hedged item. If correlation ceases to exist, hedge accounting is terminated and the gains or losses are recorded in revenues. Deferred gains on the FNMA securities hedging instrument amounted to \$135 at April 30, 2000. The contract value and market value of this hedging instrument as of April 30, 2000 were \$18,706 and \$18,584, respectively. The contract value and market value of the forward commitment as of April 30, 2000 were \$200,000 and \$199,863, respectively.

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.

QUARTERLY FINANCIAL DATA (UNAUDITED)

| | Fiscal 2000 Quarter Ended | | | | Fiscal 1999 Quarter Ended | | | |
|--|---------------------------|-------------|-------------|-------------|---------------------------|-------------|-------------|-------------|
| | April 30, | Jan. 31, | Oct. 31, | July 31, | April 30, | Jan. 31, | Oct. 31, | July 31, |
| | 2000 | 2000 | 1999 | 1999 | 1999 | 1999 | 1998 | 1998 |
| Revenues | \$ 1,607,930 | \$ 512,507 | \$ 209,946 | \$ 121,560 | \$ 1,196,997 | \$ 291,482 | \$ 85,613 | \$ 70,573 |
| Continuing operations: | | | | | | | | |
| Earnings (loss) before | | | | | | | | |
| income taxes (benefits) | \$ 557,743 | \$ (13,523) | \$ (72,157) | \$ (59,797) | \$ 481,153 | \$ (4,588) | \$ (50,249) | \$ (42,775) |
| Taxes (benefits) on earnings | 216,962 | (6,448) | (27,420) | (22,723) | 182,818 | (1,743) | (19,094) | (16,235) |
| Net earnings (loss) | 340,781 | (7,075) | (44,737) | (37,074) | 298,335 | (2,845) | (31,155) | (26,540) |
| Net loss from discontinued operations | - | - | - | - | - | (273) | (18) | (1,199) |
| Net loss on sale of discontinued operations | - | - | - | - | (961) | (19,978) | - | - |
| Net earnings (loss) | \$ 340,781 | \$ (7,075) | \$ (44,737) | \$ (37,074) | \$ 297,374 | \$ (23,096) | \$ (31,173) | \$ (27,739) |
| Basic net earnings per share: | | | | | | | | |
| Net earnings (loss) from continuing operations | \$ 3.47 | \$ (.07) | \$ (.46) | \$ (.38) | \$ 3.06 | \$ (.03) | \$ (.31) | \$ (.25) |
| Net earnings (loss) | \$ 3.47 | \$ (.07) | \$ (.46) | \$ (.38) | \$ 3.05 | \$ (.24) | \$ (.31) | \$ (.26) |
| Diluted net earnings per share: | | | | | | | | |
| Net earnings (loss) from continuing operations | \$ 3.45 | \$ (.07) | \$ (.46) | \$ (.38) | \$ 3.03 | \$ (.03) | \$ (.31) | \$ (.25) |
| Net earnings (loss) | \$ 3.45 | \$ (.07) | \$ (.46) | \$ (.38) | \$ 3.02 | \$ (.24) | \$ (.31) | \$ (.26) |

The accumulation of four quarters in fiscal 2000 and 1999 for net earnings per share does not equal the related per share amounts for the years ended April 30, 2000 and 1999 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.

SUMMARIZED FINANCIAL INFORMATION

Summarized financial information for Block Financial Corporation, an indirect, wholly owned subsidiary of the Company, is presented below.

| April 30 | 2000 | 1999 |
|--|--------------|--------------|
| Condensed balance sheets: | | |
| Cash and cash equivalents | \$ 256,823 | \$ 16,026 |
| Finance receivables, net | 3,054,792 | 658,882 |
| Other assets | 1,247,710 | 448,010 |
| Total assets | \$ 4,559,325 | \$ 1,122,918 |
| Notes payable | \$ 283,797 | \$ 71,939 |
| Long-term debt | 745,600 | 249,725 |
| Other liabilities | 3,304,740 | 636,330 |
| Stockholder's equity | 225,188 | 164,924 |
| Total liabilities and stockholder's equity | \$ 4,559,325 | \$ 1,122,918 |

| <i>Year Ended April 30</i> | 2000 | 1999 | 1998 |
|-------------------------------------|-------------------|------------|------------|
| Condensed statements of operations: | | | |
| Revenues | \$ 761,908 | \$ 386,938 | \$ 209,334 |
| Earnings from operations | 111,098 | 69,419 | 28,447 |
| Earnings before income taxes | 111,211 | 65,642 | 28,401 |
| Net earnings | 58,717 | 19,280 | 13,719 |

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 second quarter of fiscal 2000, management redefined its Mortgage operations segment to reflect the change in how the business is analyzed and evaluated. The redefined segment, Financial services, includes all of the previous mortgage activity along with the startup of the Company's new financial services operations and the acquisition of OLDE. 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 revenue includes fees from company-owned tax offices and royalties from franchised offices. This segment also purchases participation interests in refund anticipation loans made by a third-party lending institution which are offered to tax clients, provides tax preparation and other personal productivity software to the general public and provides online tax preparation and other services 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 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 10 countries. Tax-related service revenue includes fees from company-owned tax offices and royalties from franchised offices. Revenues of this segment are seasonal in nature.

Financial services: This segment is primarily engaged in the origination, purchase, servicing, securitization and sale of nonconforming and conforming mortgage loans, as well as offering full service investment opportunities to the general public in the United States. Mortgage origination services are offered through a network of mortgage brokers in 48 states, through 13 H&R Block Financial Centers and through H&R Block Mortgage Corporation retail offices in 48 states. Financial planning and investment advice are offered through 93 H&R Block Financial Centers and 105 OLDE offices, and stocks, bonds, mutual funds and other products and securities are offered through a nationwide network of approximately 1,700 registered representatives.

Business services: This segment is primarily engaged in providing accounting, tax and consulting services to business clients and tax, estate planning and financial planning 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, 2000, 1999 and 1998 is as follows:

| | 2000 | 1999 | 1998 |
|---|---------------------|--------------|--------------|
| REVENUES: | | | |
| U.S. tax operations | \$ 1,431,085 | \$ 1,258,269 | \$ 1,047,324 |
| International tax operations | 81,518 | 74,714 | 81,754 |
| Financial services | 623,805 | 259,933 | 135,788 |
| Business services | 310,867 | 47,341 | - |
| Unallocated corporate | 4,668 | 4,408 | 5,115 |
| Total revenues | \$ 2,451,943 | \$ 1,644,665 | \$ 1,269,981 |
| EARNINGS FROM CONTINUING OPERATIONS: | | | |
| U.S. tax operations | \$ 319,992 | \$ 314,113 | \$ 252,247 |
| International tax operations | 4,869 | 2,514 | 11,922 |
| Financial services | 129,800 | 61,126 | 29,195 |
| Business services | 17,111 | 7,121 | - |
| Unallocated corporate | (20,949) | (20,729) | (14,769) |
| Interest expense on acquisition debt | (56,118) | (17,757) | (13,731) |
| | 394,705 | 346,388 | 264,864 |
| Investment income, net | 8,313 | 32,234 | 25,597 |
| Intercompany interest | 9,248 | 4,919 | 5,972 |
| Earnings from continuing operations before income taxes | \$ 412,266 | \$ 383,541 | \$ 296,433 |
| DEPRECIATION AND AMORTIZATION: | | | |
| U.S. tax operations | \$ 66,523 | \$ 49,380 | \$ 37,313 |
| International tax operations | 5,494 | 5,741 | 4,541 |
| Financial services | 45,974 | 15,968 | 12,694 |
| Business services | 29,060 | 3,340 | - |
| Unallocated corporate | 167 | 176 | 424 |
| Total depreciation and amortization | \$ 147,218 | \$ 74,605 | \$ 54,972 |
| IDENTIFIABLE ASSETS: | | | |
| U.S. tax operations | \$ 348,726 | \$ 268,650 | \$ 200,243 |
| International tax operations | 59,725 | 55,684 | 48,362 |
| Financial services | 4,350,387 | 1,038,909 | 829,454 |
| Business services | 517,134 | 146,252 | - |
| Unallocated corporate | 423,378 | 400,681 | 1,623,612 |
| Discontinued credit card operations | - | - | 202,412 |
| Total assets | \$ 5,699,350 | \$ 1,910,176 | \$ 2,904,083 |
| CAPITAL EXPENDITURES: | | | |
| U.S. tax operations | \$ 85,999 | \$ 63,354 | \$ 36,495 |
| International tax operations | 3,281 | 7,709 | 7,013 |
| Financial services | 23,351 | 8,089 | 4,747 |
| Business services | 4,046 | 1,137 | - |
| Unallocated corporate | 212 | 80 | 1,502 |
| Total capital expenditures | \$ 116,889 | \$ 80,369 | \$ 49,757 |

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 2000 and 1999 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.



FRANK L. SALIZZONI
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 as of April 30, 2000 and 1999 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, 2000 and 1999, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States. 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, 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 the opinion expressed above. The financial statements of the Company for the year ended April 30, 1998 were audited by other independent accountants whose report dated June 16, 1998 and July 12, 1999 (as to the effects of the discontinued credit card operations described in the note on the sale of subsidiaries) expressed an unqualified opinion on those statements.



Kansas City, Missouri
June 20, 2000

| Year Ended April 30 | 2000 | 1999 | 1998 | 1997 | 1996 |
|--|---------------------|---------------------|---------------------|---------------------|-------------------|
| REVENUES: | | | | | |
| <i>U.S. tax operations:</i> | | | | | |
| Tax preparation fees | \$ 995,683 | \$ 858,748 | \$ 738,546 | \$ 643,152 | \$ 528,720 |
| Electronic filing fees | 144,498 | 143,315 | 116,031 | 140,253 | 113,398 |
| Royalties | 127,385 | 114,181 | 102,179 | 98,225 | 87,571 |
| Refund anticipation loan revenue | 89,829 | 90,194 | 53,344 | 54,494 | – |
| Software sales | 40,685 | 33,486 | 19,250 | 14,089 | 9,721 |
| Intrasegment sales | (13,391) | (12,714) | (7,858) | (8,310) | – |
| <i>International tax operations:</i> | | | | | |
| Tax preparation fees | 49,283 | 45,770 | 50,118 | 52,292 | 44,769 |
| Discounted return fees | 19,772 | 18,658 | 20,477 | 23,210 | 25,819 |
| Royalties | 8,808 | 8,299 | 8,966 | 9,283 | 8,785 |
| Electronic filing fees | 197 | 219 | 272 | 409 | 488 |
| <i>Financial services:</i> | | | | | |
| Mortgage operations | 355,374 | 255,944 | 135,778 | 8,895 | 91 |
| Investment services | 268,431 | 3,989 | 10 | – | – |
| <i>Business services</i> | | | | | |
| | 310,867 | 47,341 | – | – | – |
| <i>Unallocated corporate & Other</i> | | | | | |
| | 54,522 | 37,235 | 32,868 | 30,418 | 27,625 |
| | \$ 2,451,943 | \$ 1,644,665 | \$ 1,269,981 | \$ 1,066,410 | \$ 846,987 |
| EARNINGS BEFORE INTEREST, TAXES, DEPRECIATION AND AMORTIZATION* | | | | | |
| | \$ 598,041 | \$ 438,750 | \$ 333,567 | \$ 250,678 | \$ 219,099 |
| NUMBER OF TAX OFFICES: | | | | | |
| <i>By country:</i> | | | | | |
| United States | 9,210 | 8,923 | 8,780 | 8,554 | 8,308 |
| Canada | 966 | 1,032 | 928 | 1,021 | 1,016 |
| Australia | 349 | 347 | 334 | 302 | 297 |
| Other | 89 | 87 | 86 | 60 | 57 |
| | 10,614 | 10,389 | 10,128 | 9,937 | 9,678 |
| <i>By type:</i> | | | | | |
| Company-owned | 5,952 | 5,695 | 5,339 | 5,215 | 4,738 |
| Franchised | 4,662 | 4,694 | 4,789 | 4,722 | 4,940 |
| | 10,614 | 10,389 | 10,128 | 9,937 | 9,678 |
| RETURN AND FEE DATA: ** | | | | | |
| <i>Tax preparation fees:</i> | | | | | |
| United States | \$ 1,511,349 | \$ 1,332,940 | \$ 1,164,776 | \$ 1,024,965 | \$ 884,798 |
| Canada | 73,193 | 74,998 | 77,913 | 79,163 | 70,078 |
| Australia | 39,463 | 35,785 | 33,027 | 31,920 | 29,571 |
| Electronic filing fees in the United States | \$ 205,538 | \$ 201,212 | \$ 171,658 | \$ 201,021 | \$ 171,659 |
| Discounted return fees in Canada | \$ 29,020 | \$ 28,458 | \$ 30,267 | \$ 33,775 | \$ 38,639 |
| <i>Number of returns prepared:</i> | | | | | |
| United States*** | 16,276 | 15,761 | 14,838 | 14,302 | 13,360 |
| Regular returns in Canada | 1,258 | 1,341 | 1,413 | 1,573 | 1,542 |
| Discounted returns in Canada | 547 | 516 | 532 | 583 | 681 |
| Australia | 455 | 428 | 406 | 403 | 389 |
| <i>Number of U.S. electronic filings:</i> | | | | | |
| Prepared by H&R Block | 11,935 | 10,359 | 8,426 | 5,950 | 4,900 |
| Self-prepared | 657 | 780 | 997 | 1,329 | 1,398 |
| | 12,592 | 11,139 | 9,423 | 7,279 | 6,298 |

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

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

***Includes returns filed electronically.

BOARD OF DIRECTORS

| | |
|--|--|
| G. Kenneth Baum ^{3, 4*} , 6 <i>Chairman of the Board, George K. Baum Group, Inc. Kansas City, Missouri</i> | Henry F. Frigon ^{4, 5*} , 6 <i>Chairman and Chief Executive Officer CARSTAR, Inc., Overland Park, Kansas</i> |
| Henry W. Bloch ^{3*} <i>Chairman of the Board, H&R Block, Inc.</i> | Roger W. Hale ^{1, 5, 6*} <i>Chairman and Chief Executive Officer LG&E Energy Corporation, Louisville, Kentucky</i> |
| Robert E. Davis ^{1, 2*, 4, 5} <i>Partner, Aress Corporation Newark, Delaware</i> | Frank L. Salizzoni ³ <i>Chief Executive Officer, H&R Block, Inc.</i> |
| Donna R. Ecton ^{1*, 2, 5} <i>Chairman, President and Chief Executive Officer EEL, Inc., Phoenix, Arizona</i> | Louis W. Smith ^{1, 2, 3} <i>President and Chief Executive Officer Ewing Marion Kauffman Foundation Kansas City, Missouri</i> |
| Mark A. Ernst ³ <i>President and Chief Operating Officer, H&R Block, Inc.</i> | Morton I. Sosland ^{2, 3, 6} <i>Chairman of the Board, Sosland Publishing Company Kansas City, Missouri</i> |

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

| | |
|---|--|
| Henry W. Bloch <i>Chairman of the Board</i> | Thomas G. Rotherham <i>President and Chief Executive Officer, RSM McGladrey, Inc.</i> |
| Frank L. Salizzoni <i>Chief Executive Officer</i> | Jeffery W. Yabuki <i>President, H&R Block International</i> |
| Mark A. Ernst <i>President and Chief Operating Officer</i> | Thomas L. Zimmerman <i>President, H&R Block Tax Services, Inc.</i> |
| David F. Byers <i>Senior Vice President and Chief Marketing Officer</i> | Cheryl L. Givens <i>Vice President and Corporate Controller</i> |
| Frank J. Cotroneo <i>Senior Vice President and Chief Financial Officer</i> | James H. Ingraham <i>Vice President, General Counsel and Secretary</i> |
| Robert E. Dubrish <i>President and Chief Executive Officer, Option One Mortgage Corporation</i> | Linda M. McDougall <i>Vice President, Communications</i> |
| Gene S. Goldenberg <i>Senior Vice President, Software and E-Commerce Block Financial Corporation</i> | Brian N. Schell <i>Vice President and Treasurer</i> |
| David J. Kasper <i>President, Financial Services Group Block Financial Corporation</i> | Robert A. Weinberger <i>Vice President, Government Relations</i> |
| Stephanie R. Otto <i>Senior Vice President, Human Resources</i> | Bret C. Wilson <i>Vice President, Corporate Planning and Development</i> |
| James D. Rose <i>Senior Vice President and Chief Information Officer</i> | Robert D. Wilson <i>Vice President, Business Development</i> |

COMMON STOCK DATA

| | Stock Price | | Cash Dividend |
|--------------------------|------------------|-------------------|----------------|
| | High | Low | Paid per Share |
| 1999 FISCAL YEAR: | | | |
| Quarter ended 7/31/98 | 45 $\frac{5}{8}$ | 41 $\frac{5}{16}$ | .20 |
| Quarter ended 10/31/98 | 47 $\frac{7}{8}$ | 35 $\frac{5}{16}$ | .25 |
| Quarter ended 1/31/99 | 48 $\frac{3}{4}$ | 40 $\frac{3}{8}$ | .25 |
| Quarter ended 4/30/99 | 51 $\frac{3}{4}$ | 40 $\frac{1}{4}$ | .25 |
| 2000 FISCAL YEAR: | | | |
| Quarter ended 7/31/99 | 58 $\frac{7}{8}$ | 45 $\frac{1}{2}$ | .25 |
| Quarter ended 10/31/99 | 59 $\frac{1}{2}$ | 38 | .275 |
| Quarter ended 1/31/00 | 49 $\frac{1}{2}$ | 39 $\frac{3}{8}$ | .275 |
| Quarter ended 4/30/00 | 49 $\frac{1}{2}$ | 39 $\frac{1}{2}$ | .275 |

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

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 Nelson-Atkins Museum of Art, 4525 Oak Street, Kansas City, Missouri at 9 a.m. Central Time, Wednesday, September 13, 2000.

Upon written request, we will furnish without charge to our shareholders a copy of our 2000 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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