

**THE 1200 MAIN/SOUTH LOOP
TAX INCREMENT FINANCING PLAN
KANSAS CITY, MISSOURI
JANUARY 14, 2004**

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I. DEFINITIONS

As used in this Tax Increment Financing Plan, the following terms shall have the following meanings:

- A. "City," the City of Kansas City, Missouri.
- B. "Blighted area," an area which, by reason of the predominance of defective or inadequate street layout, unsanitary or unsafe conditions, deterioration of site improvements, improper subdivision or obsolete platting, or the existence of conditions which endanger life or property by fire and other causes, or any combination of such factors, retards the provision of housing accommodations or constitutes an economic or social liability or a menace to the public health, safety, morals, or welfare in its present condition and use.
- C. "Commission," the Tax Increment Financing Commission of Kansas City, Missouri.
- D. "Economic Activity Taxes," the total additional revenue from taxes which are imposed by a municipality and other taxing districts, and which are generated by economic activities within a redevelopment area over the amount of such taxes generated by economic activities within such redevelopment area in the calendar year prior to the adoption of the ordinance designating such a redevelopment area, while tax increment financing remains in effect, but excluding personal property taxes, taxes imposed on sales or charges for sleeping rooms paid by transient guests of hotels and motels, licenses, fees or special assessments. For redevelopment projects or redevelopment plans approved after December 23, 1997, if a retail establishment relocates within one year from one facility to another facility within the same county and the governing body of the municipality finds that the relocation is a direct beneficiary of tax increment financing, then for purposes of this definition the economic activity taxes generated by the retail establishment shall equal the total additional revenues from economic activity taxes which are imposed by a municipality or other taxing district over the amount of economic activity taxes generated by the retail establishment in the calendar year prior to its relocation to the redevelopment area. For redevelopment plans or projects approved by ordinance that result in net new jobs from the relocation of a national headquarters from another state to the area of the redevelopment project, the economic activity taxes and new state tax revenues shall not be based on a calculation of the incremental increase in taxes as compared to the base year or prior calendar year for such redevelopment project, rather the incremental increase shall be the amount of total taxes generated from the net new jobs brought in by the national headquarters from another state.
- E. "Gambling Establishment," an excursion gambling boat as defined in section 313.800, RSMo, and any related business facility including any real property improvements which are directly and solely related to such business facility, whose sole purpose is to provide goods or services to an excursion gambling boat and whose majority ownership interest is held by a person licensed to conduct gambling games on an excursion

gambling boat or licensed to operate an excursion gambling boat as provided in sections 313.800 to 313.850, RSMo.

- F. "Obligations," bonds, loans, debentures, notes, special certificates, or other evidences of indebtedness issued by a municipality to carry out a redevelopment project or to fund outstanding obligations.
- G. "Ordinance," an ordinance enacted by the governing body of a city, town, or village or a county or an order of the governing body of a county whose governing body is not authorized to enact ordinances.
- H. "Payment in Lieu of Taxes," those estimated revenues from real property in the area selected for a redevelopment project, which revenues according to the redevelopment project or plan are to be used for a private use, which taxing districts would have received had a Municipality not adopted tax increment allocation financing, and which would result from levies made after the time of the adoption of tax increment allocation financing during the time the current equalized value of real property in the project area exceeds the total initial equalized value of real property in such area until the designation is terminated pursuant to subsection 2 of Section 99.850. Payments in lieu of taxes which are due and owing shall constitute a lien against the real estate of the Redevelopment Project from which they are derived, the lien of which may be foreclosed in the same manner as a special assessment lien as provided in Section 88.861 R.S.Mo.
- I. "Project Improvements," those development activities undertaken within the Redevelopment Area intended to accomplish the objectives of the Redevelopment Plan.
- J. "Redeveloper," the business organization or other entity selected by the Commission to implement the Redevelopment Plan, or a Redevelopment Project (s). There may be more than one Redeveloper designated pursuant to this Redevelopment Plan.
- K. "Redevelopment Agreement," the agreement between the City of Kansas City, Missouri, the Tax Increment Financing Commission and Redeveloper for the implementation of the Redevelopment Plan.
- L. "Redevelopment Area," an area designated by a municipality, in respect to which the municipality has made a finding that there exist conditions which cause the area to be classified as a blighted area, a conservation area, an economic development area, or a combination thereof, and which includes only those parcels of real property directly and substantially benefited by the proposed Redevelopment Project.

- M. "Redevelopment Plan," the comprehensive program of a municipality for redevelopment intended by the payment of redevelopment costs to reduce or eliminate those conditions, the existence of which qualified the Redevelopment Project Area as a blighted area, conservation area, economic development area, or combination thereof, and to thereby enhance the tax bases of the taxing districts which extend into the Redevelopment Area.
- N. "Redevelopment Project," any development project within a Redevelopment Area in furtherance of the objectives of the Redevelopment Plan.
- O. "Redevelopment Project Area," the area selected for a specific redevelopment project.
- P. "Redevelopment Project Costs" include the sum total of all reasonable or necessary costs incurred or estimated to be incurred, any such costs incidental to a Redevelopment Plan and a Redevelopment Project. Such costs include, but are not limited to the following:
1. Costs of studies, surveys, plans and specifications;
 2. Professional service costs, including, but not limited to, architectural, engineering, legal, marketing, financial, planning or special services. Except the reasonable costs incurred by the commission established in section 99.820 for the administration of sections 99.800 to 99.865, such costs shall be allowed only as an initial expense which, to be recoverable, shall be included in the costs of a redevelopment plan or project;
 3. Property assembly costs, including but not limited to, acquisition of land and other property, real or personal, or rights or interests therein, demolition of buildings, and the clearing and grading of land;
 4. Costs of rehabilitation, reconstruction, repair or remodeling of existing buildings and fixtures;
 5. Cost of construction of public works or improvements;
 6. Financing costs, including, but not limited to all necessary and incidental expenses related to the issuance of Obligations, and which may include payment of interest on any Obligations issued hereunder accruing during the estimated period of construction of any Redevelopment Project for which such Obligations are issued and for not more than eighteen months thereafter, and including reasonable reserves related thereto;
 7. All or a portion of a taxing district's capital cost resulting from the Redevelopment Project necessarily incurred or to be incurred in furtherance of the objectives of the Redevelopment Plan and Project, to the extent the municipality by written agreement accepts and approves such costs;

8. Relocation costs to the extent that a Municipality determines that relocation costs shall be paid or are required to be paid by federal or state law;
 9. Payments in lieu of taxes.
- Q. "Special Allocation Fund," the fund of a municipality or its commission, which contains at least two separate segregated accounts for each redevelopment plan, maintained by the treasurer of the municipality or the treasurer of the commission into which payments in lieu of taxes and other revenues are deposited in the other account.
- R. "Tax Increment Financing," tax increment allocation financing as provided pursuant to Chapter 99.800, et seq. RSMo.
- S. "Taxing Districts," any political subdivision of Missouri having the power to levy taxes.

II. TAX INCREMENT FINANCING

This Plan is adopted pursuant to the Real Property Tax Increment Allocation Redevelopment Act, Missouri Revised Statutes, Section 99.800 through 99.865 (the "Act"). The Act enables municipalities to finance Redevelopment Project Costs with the revenue generated from Payments in Lieu of Taxes and Economic Activity Taxes. This Redevelopment Plan shall be filed of record against all real property in the approved Redevelopment Project Area.

III. GENERAL DESCRIPTION OF PLAN AND PROJECT.

- A. The Redevelopment Plan. The 1200 Main/South Loop Tax Increment Financing Redevelopment Plan (the "Redevelopment Plan") proposes to acquire, develop, construct, rehabilitate and improve office space, parking garages, public improvements, streetscape, park development, residential development, retail development, as well as all necessary public infrastructure, appurtenances and utilities.
- B. Redevelopment Area. The Redevelopment Plan Area is an area generally within the boundaries of an area beginning with Grand Avenue on the east from Truman Road to 13th Street; then the Redevelopment Area runs west on 13th Street until Walnut Street; then the Redevelopment Area runs north to Petticoat Lane; then the Redevelopment Area runs west to Main Street; then the Redevelopment Area runs north to the center line of east-west alley located north of Lot 1, E & A Subdivision within the block bound by 10th/11th/Main and Baltimore; then the Redevelopment Area runs south on Baltimore to the center line of the east-west alley located south of Lot 1, E & A Subdivision within the block bound by 10th/11th/Main and Baltimore; then the Redevelopment Area runs south to 12th Street; then the Redevelopment Area runs west to Baltimore Street; and then the Redevelopment Area runs south on Baltimore Street until Truman Road which is the southern boundary of the Redevelopment Area in Kansas City, Jackson County, Missouri. (the "City") as legally described in Exhibit 1A (the "Redevelopment Area").

- C. Project Improvements. The Project Improvements will consist of the (i) acquisition of land (ii) acquisition and demolition of the vacant Jones Store building (iii) construction of parking garages, (iv) construction of retail/entertainment uses of approximately 325,000 to 450,000 square feet, (v) construction of two office buildings containing approximately 450,000 to 650,000 square and 250,000 to 300,000 square feet, (vi) renovation of the Hotel President (vii) construction of mixed development which will include residential, retail, office, and open space uses, (viii) construction of improvements in One Kansas City Place office building (ix) construction of improvements in and parking for Town Pavilion as shown in Exhibit 2.
- D. Redevelopment Projects. The Project Improvements and other redevelopment activities will be undertaken as a series of at least 7 redevelopment projects (the "Redevelopment Projects"), each of which will be approved by ordinance in conformance with the Act. The Redevelopment Area is described in Exhibit 1A. The Redevelopment Project Areas provided for in this Plan are described in Exhibit 1B and depicted on Exhibit 2 B. Estimated construction and employment information for Redevelopment Projects 1 and 2 are set forth in Exhibit 4.
- E. Estimated Date of Completion. The estimated dates for completion of each Redevelopment Project are set forth on Exhibit 5. The completion of all redevelopment projects and retirement of Obligations incurred to finance redevelopment costs will occur no later than twenty-three (23) years from the adoption of the ordinance approving a specific Redevelopment Project. In no event shall any ordinance approving a Redevelopment Project be adopted later than ten (10) years from the adoption of the ordinance approving this Redevelopment Plan.
- F. Redevelopment Plan Objectives. The general objectives of the Redevelopment Plan are:
1. To eliminate adverse conditions which are detrimental to public health, safety, morals, or welfare in the Redevelopment Area and to eliminate and prevent the recurrence thereof for the betterment of the Redevelopment Area and the community at large;
 2. To enhance the tax base of the City and the other Taxing Districts, encourage private investment in the surrounding area, and increase employment opportunities in the Redevelopment Area;
 3. To increase employment opportunities;
 4. To stimulate construction and development and generate tax revenues, which would not occur without Tax Increment Financing assistance;
 5. To support the creation of a new garage for use by residences, businesses and employees within the Downtown Loop;

- G. Gaming Status. The Redevelopment Plan does not include the initial development or redevelopment of any gambling establishment.

IV. FINANCING

- A. Estimated Redevelopment Project Costs. Redevelopment Project Costs for Projects 1, 2 and 3a are estimated to be approximately \$536,463,354. The Plan proposes that approximately \$4449,159,463 in Redevelopment Project Costs be reimbursable from the Statutory TIF Special Allocation Fund, City Annual Appropriation of EATS, Missouri Downtown Economic Stimulus Authority Special Allocation Fund, and State TIF Special Allocation Fund. Project 1 will use the Missouri Downtown Economic Stimulus Authority Special Allocation Funds for eligible reimbursable cost and Project 2 will received State TIF Special Allocation Funds for eligible reimbursable cost. The estimated Redevelopment Project Costs and costs eligible for reimbursement from the Special Allocation Fund are identified in Exhibit 5. The reimbursable Project Costs include those shown in Exhibit 5.

The Commission has determined that certain planning and special services expenses of the Commission, which are not direct Redevelopment Project costs, are nonetheless reasonable and necessary for the operation of the Commission and are incidental costs to the Redevelopment Project. These incidental costs will be recovered by the Commission from the Special Allocation Fund in an amount not to exceed five percent (5%) of the Payments in Lieu of Taxes and Economic Activity Taxes paid annually into the fund.

- B. Anticipated Sources of Funds. Anticipated sources and amounts of funds to pay Redevelopment Project Costs and amounts to be available from those sources are shown on Exhibit 7. The expected sources of funds to be used to reimburse eligible expenses include (i) affected developer's equity, (ii) PILOTS, (iii) Economic Activity Tax, and (iii) state and federal sources.

If bonds are issued, bond proceeds will be deposited in a special construction fund for use in payment of Reimbursable Project Costs.

- C. Payments in Lieu of Taxes. Calculations of expected proceeds of Payments in Lieu of Taxes are based on current real property assessment formulas and current and anticipated property tax rates, both of which are subject to change due to many factors, including reassessment, the effects of real property classification for real property tax purposes, and the rollback in tax levies resulting from reassessment or classification. The estimated total Payments in Lieu of Taxes generated within the Plan over the duration of the Plan is \$101,017,032.

It is anticipated that all of the available Payments in Lieu of Taxes will be used to reimburse eligible Redevelopment Project Costs as provided for in this Plan. However, any Payments in Lieu of Taxes that exceed the amount necessary for such reimbursement shall be declared surplus and be available for distribution to

the various Taxing Districts in the Redevelopment Area in the manner provided by the Act.

- D. Economic Activity Taxes. Over the life of the Plan, the total Economic Activity Tax revenues estimated to be generated are approximately \$335,063,360. Of the total additional revenue from taxes imposed by the municipality or other taxing districts and which are generated by economic activities within the Redevelopment Project Areas, as defined in Section 99.845.3, fifty percent (50%), or approximately \$167,531,680 over the life of the Plan, will be made available upon annual appropriation, to pay eligible Redevelopment Project Costs. Those Economic Activity Taxes available to pay project costs are shown in Exhibit 6.

Anticipated Economic Activity Taxes are based upon projected net earnings taxes paid by businesses and employees, as well as sales tax. It is assumed that net earnings and sales tax revenues will increase due to inflation at a rate of 3% a year in addition to the assumed increases due to job creation and business expansion. The estimated PILOTS and Economic Activity Tax revenues are set forth in Exhibit 6 attached hereto.

The amount of Economic Activity Taxes in excess of the funds deemed necessary by the Commission for implementation of this Plan, if any, may be declared as surplus by the Commission. The declared surplus will be available for distribution to the various taxing districts in the Redevelopment Area in the manner provided by the Act.

The Plan requires that all affected businesses and property owners be identified and that the Commission shall be provided with documentation regarding payment of Economic Activity Taxes by Redeveloper, its contractors, tenants and assigns. The Commission shall make available information to the City of Kansas City regarding the identity and location of the affected businesses. It shall be the obligation and intent of the City of Kansas City to determine the Economic Activity Taxes and to appropriate such funds into the Special Allocation Fund, no less frequently than yearly and no more frequently than quarterly, in accordance with the Act.

- E. Anticipated Type and Terms of Obligations. In the event Obligations are issued, the Plan intends that these obligations have a first call on the PILOTS and Economic Activity Taxes revenue stream. Additionally, it is estimated that available project revenues must equal 120% - 175% of the annual debt service payments required for the retirement of the Obligations. Revenues received in excess of 100% of funds necessary for the payment of principal and interest on the Obligations may be used for reserves, including but not limited to capital improvement reserves, reimbursable project costs or to call Obligations in advance of their maturities or declared surplus. Obligations may be sold in one or more series in order to implement this Plan. All Obligations shall be retired no later than 23 years after the adoption of the ordinance adopting tax increment financing for the redevelopment project, or projects which support such Obligations, the costs of which are to be paid

from the proceeds thereof. No redevelopment project may be approved by ordinance adopted more than ten years from the adoption of the ordinance approving the redevelopment plan under which the project is authorized.

- F. Evidence of Commitments to Finance Commitments for any private financing of Redevelopment Project Costs necessary to complete Project Improvements for all Projects shall be submitted for approval prior to the approval of any ordinance. Evidence of capacity to obtain private financing is attached as Exhibit 14.

V. MOST RECENT EQUALIZED ASSESSED VALUATION

The total initial equalized assessed valuation of the Redevelopment Area according to current records of the Kansas City Assessor's Office is approximately \$9,574,885 on land and \$24,198,474 on improvements. The current combined ad valorem property tax levy is projected to be \$9.97 (including 1989 M & M replacement taxes and Blind Pension Fund) per \$100 assessed valuation on land and \$9.22 (including 1989 M & M replacement taxes and Blind Pension Fund) per \$100 assessed valuation on improvements. The 2003 annual ad valorem tax revenue from the Redevelopment Area is approximately \$3,185,775.

The Total Initial Equalized Assessed Valuation of the Redevelopment Area will be determined prior to the time each individual Redevelopment Project is approved by ordinance. Payments in Lieu of Taxes measured by subsequent increases in property tax revenue which would have resulted from increased valuation had Tax Increment Financing not been adopted will be segregated from taxes resulting from the Total Initial Equalized Assessed Valuation as defined herein, and deposited in a special allocation fund earmarked for payment of Redevelopment Projects Costs as defined herein.

VI. ESTIMATED EQUALIZED ASSESSED VALUATION AFTER REDEVELOPMENT

When the Project Improvements have been completed, the total assessed valuation of the Redevelopment Area will be determined. The estimated increase in assessed valuation and the resulting Payments in Lieu of Taxes are shown in Exhibit 6. When complete and the Redevelopment Plan is terminated, the Redevelopment Area will annually initially yield the estimated real property taxes as indicated in Exhibit 6.

VII. GENERAL LAND USE

The Redevelopment Area identifies properties to be redeveloped for a mixed use of commercial, retail, residential, open space and publicly owned parking. The Redevelopment Projects shall be subject to the applicable provisions of the City's Zoning Ordinance as well as other codes and ordinances as may be amended from time to time. The proposed land use is consistent with the Downtown Land Use and Development Plan, which was adopted by the City on March 27, 2003 by Ordinance Number 030165.

VIII. CONFORMANCE TO THE DOWNTOWN LAND USE AND DEVELOPEMENT PLAN

The TIF Plan is consistent with the City's Comprehensive Plan, specifically with the FOCUS Plan as approved by the City Council on October 30, 1997 by Resolution Number 971268. This TIF Plan incorporating the following improvements:

1. Coordinate public and private parking for multiple developments within the Downtown Loop.
2. Develop new residential units within the Downtown Loop.
3. Eliminate blight with the removal of the vacant Jones Store.

IX. EXISTING CONDITIONS IN THE REDEVELOPMENT AREA.

The Redevelopment Area qualifies as a Blighted Area. The Redevelopment Area has the 1200 Main Blight Study, Hotel President Blight Study and the Power & Light Blight Study, attached as Exhibit 10, to provide evidence of dilapidation, obsolescence, presences of structures below minimum code standards, excessive vacancies, and other blighting conditions stated within the Redevelopment Act in Section 99.805(3) R.S.Mo.

X. "BUT FOR TIF"

Substantial public financing of Project Improvements is identified within the Plan. This assistance is necessary to ensure successful redevelopment of the Plan Area to serve the public purpose set forth herein. The purpose of the affording public assistance is to accomplish the stated public purpose and not to subsidize otherwise economically viable Redevelopment Projects. In order to ensure that the public assistance being provided does not subsidize an unreasonable level of earnings, each project within the Plan will be required to have a cash-on-cash internal rate of return analysis completed and presented to the Tax Increment Financing Commission prior to approval of the project. The analysis must demonstrate that the project would not be undertaken but for the public assistance being provided to the project.

Acceptable investment returns to real estate investors depend on a large number of external factors and the nature of the specific investment, including, the property sector of land use; the life cycle of the property; local market conditions such as new development, major employers and their plans, demographics and the like; the overall risk associated with the property; inflation expectations, and numerous other factors. The best method of determining the need for assistance and the sizing of the TIF assistance is to study the developer's internal rate of return ("IRR"). The internal rate of return takes into account both the annual income derived as cash flow as well as the potential return from a hypothetical sale of the private improvements at the end of the forecast period.

The Redevelopment Agreement shall contain provisions whereby the public may participate in excess of the annual cash-on-cash return. The level of participation will be identified in the financial analysis of each project.

In the event that any Project Improvement is refinanced or sold, once all cost of the sale or refinancing have been paid, the private debt retired, the investors' equity investment returned, the public will share in residual proceeds. The annual cash-on-cash and residual sales

participation shall be in the same proportion as the proportion of public investment in the completed Project or group of Projects bears to the total cost of all Project Improvements in such Project or group of Projects. The proceeds of such participation shall be distributed per the discretion of the Tax Increment Financing Commission.

Per the attached report, Projects 1,2 and 3 would have negative IRR without tax increment financing assistance. Project 1 would have a 14.4% IRR with TIF assistance, Project 2 would have a 1.7% IRR and Project 3 would have a 9.3% IRR.

XI. COST-BENEFIT ANALYSIS

A cost-benefit analysis shall be prepared for Plan. This analysis and other evidence submitted to the Commission shall describe the (1) impact on the economy of each taxing district if the Plan and projects are not built; (2) impact on the economy of each taxing district if the Plan and projects are built; (3) a fiscal impact study on every affected political subdivision; and (4) sufficient information to determine whether the projects as proposed are financially feasible.

XII. ACQUISITION AND DISPOSITION

It is anticipated that it will be necessary to acquire property to achieve the redevelopment objectives. The Commission may acquire property by purchase, donation, lease or eminent domain in the manner provided for by corporations in Chapter 523, R.S.Mo. The property acquired by the Commission may be cleared, and either (1) sold or leased for private redevelopment or (2) sold, leased, or dedicated for construction of public improvements or facilities. No property for a redevelopment project shall be acquired by eminent domain later than five (5) years from adoption of the ordinance approving the project. See Exhibit 12 for notation of properties, which could be under consideration of acquisition.

XIII. RELOCATION ASSISTANCE PLAN

Should relocation be necessary, relocation assistance will be available to all eligible displaced occupants in conformance with the Commission's Relocation Assistance Plan as shown in Exhibit 13 or as may be required by other state or federal laws. Any relocation will be at the expense of a Redeveloper, the Tax Increment Financing Commission or the City of Kansas City, Missouri.

XIV. ENTERPRISE ZONE

In the event mandatory abatement is sought or received pursuant to Section 135.215, R.S.Mo., as amended, such abatement shall not serve to reduce payments in lieu of taxes that would otherwise have been available pursuant to Section 99.845, R.S.Mo. without Commission approval. Said designation shall not relieve the assessor or other responsible official from ascertaining the amount of equalized assessed valuation of all taxable property annually as required by Section 99.855, R.S.Mo.

XV. PROVISION OF PUBLIC FACILITIES

Redeveloper will provide and maintain all necessary public facilities and utilities to service the Redevelopment Area

XVI. REDEVELOPMENT AGREEMENT

Upon approval of this Plan, the Tax Increment Financing Commission and Redeveloper will enter into a Redevelopment Agreement, which will include, among other things, provisions relative to the following:

1. implementation of the Plan;
2. reporting of Economic Activity Taxes;
3. the Commission's Affirmative Action Policy;
4. a design guideline review and approval process;
5. the Commission's Relocation Plan, if any;
6. approval by Commission of the costs, design of the Project Improvements, Redevelopment Project Costs, certified reimbursable Redevelopment Project Costs; and
7. public participation in excess return.

EXHIBIT 1 A

REDEVELOPMENT AREA

Beginning at the point of intersection of the westerly prolongation of the northern boundary of Lot 1, E & A Subdivision with the center line of the right-of-way of Baltimore Avenue; thence south along the center line of the right-of-way of Baltimore Avenue to its intersection with the westerly prolongation of the southern boundary of Lot 1, E & A Subdivision; thence east along the southern boundary of Lot 1, E & A Subdivision to its intersection with the center line of the public alley lying west of Lot 2, E & A Subdivision; thence south along the center line of the public alley lying west of Lot 2, E & A Subdivision to its intersection with the westerly prolongation of the southern boundary of Lot 2, E & A Subdivision; thence east along the southern boundary of Lot 2, E & A Subdivision, to the point of intersection of the easterly prolongation of the southern boundary of Lot 2, E & A Subdivision with the center line of the right-of-way of Main Street; thence south along the center line of the right-of-way of Main Street to its intersection with the center line of the right-of-way of 12th Street; thence west along the center line of the right-of-way of 12th Street to its intersection with the center line of the right-of-way of Baltimore Avenue; thence south along the center line of the right-of-way of Baltimore Avenue to its intersection with the center line of the right-of-way of U.S. Interstate Highway Route No. 35 (Truman Road); thence east along the center line of the right-of-way of Interstate Highway Route No.35 (Truman Road) to its intersection with the center line of the right-of-way of Grand Street; thence north along the center line of the right-of-way of Grand Street to its intersection with the center line of the right of way with 13th Street; thence west along the center line of the right-of-way of 13th Street to its intersection with the center line of the right-of-way of Walnut Street; thence north along the center line of the right-of-way of Walnut Street to its intersection with the easterly prolongation of a line 11.75 feet south of the north line of Lot 47, Block 4, McGee's Addition and parallel with the south line of the right-of-way of 12th Street; thence west along said line to a point 77 feet west of the west line of the right-of-way of Walnut Street; thence south parallel with the west line of the right-of-way of Walnut Street 8.25 feet; thence west parallel with the south line of the right-of-way of 12th Street to the center line of a public alley lying east of and adjacent to Lots 55 through 63, inclusive, Block 4, McGee's Addition and lying west of and adjacent to Lots 46 through 54, inclusive, Block 4, McGee's Addition; thence north along the center line of said public alley to its intersection with the center line of the right-of-way of 12th Street; thence east along the center line of the right-of-way of 12th Street to its intersection with the center line of the right-of-way of Walnut Street; thence north along the center line of the right-of-way of Walnut Street to its intersection with the center line of the right-of-way of Petticoat Lane, also know as 11th Street; thence west along the center line of the right-of-way of Petticoat Lane (11th Street) to its intersection with the center line of the right-of-way of Main Street; thence north along the center line of the right-of-way of Main Street to the easterly prolongation of the northern boundary of Lot 1, E & A Subdivision; thence west along the northern boundary of Lot 1, E & A Subdivision to its point of intersection with the center line of the north-south public alley lying east of Lot 4, Block 10, Ashburn's Addition; thence north along the center line of the north-south

public alley lying east of Lot 4, Block 10, Ashburn's Addition to its intersection with the center line of the east-west public alley lying north of Lot 1, E & A Subdivision; thence west along the center line of the east-west public alley lying north of Lot 1, E & A Subdivision to its intersection with the center line of the right-of-way of Baltimore Avenue to the point of beginning. Area is being defined using the center line of the right-of-way of streets, alleys, and lanes as now established.

EXHIBIT 1 B

LEGAL DESCRIPTION **PROJECT 1**

Entertainment District:

Block 110: Beginning at the point of intersection of the westerly prolongation of the northern boundary of Lot 55, Block 4, McGee's Addition with the center line of the right-of-way of Main Street, as said street is now established; thence south along the center line of the right-of-way of Main Street to its intersection with the westerly prolongation of the northern boundary of the southern half of Lot 59, Block 4, McGee's Addition; thence east along said line to its point of intersection with the center line of the public alley lying east of and adjacent to Lots 55 through 63, inclusive, Block 4, McGee's Addition and west of and adjacent to Lots 46 through 54, inclusive, Block 4, McGee's Addition; thence south along the center line of said alley to the point of intersection of the southerly prolongation of the center line of said alley with the center line of the right-of-way of 13th Street, as said street is now established; thence east along the center line of the right-of-way of 13th Street to its intersection with the center line of Walnut Street; thence north along the center line of Walnut Street to its intersection with the easterly prolongation of a line 11.75 feet south of the north line of Lot 47, Block 4, McGee's Addition and parallel with the south line of 12th Street, as said street is now established; thence west parallel with the south line of 12th Street to a point 77 feet west of the west line of Walnut Street; thence south parallel with the west line of Walnut Street 8.25 feet; thence west parallel with the south line of 12th Street to the center line of a public alley lying east of and adjacent to Lots 55 through 63, inclusive, Block 4, McGee's Addition; thence north along the center line of said alley to its intersection with the westerly prolongation of the northern boundary of Lot 46, Block 4, McGee's Addition; thence west along the northern boundary of Lot 55, Block 4, McGee's Addition to the point of beginning; which includes, among other property:

All of Lots 48, 49, 50, 51, 52, 53, 54, 55, 56, 57, 58, and the northern half of Lot 59, all in Block 4, McGee's Addition, a subdivision in Kansas City, Jackson County, Missouri, according to the recorded plat thereof; and

All that part of Lot 47, Block 4, McGee's Addition to Kansas City, Jackson County, Missouri described as follows:

Beginning at the Southeast corner of Lot Forty-Seven (47), Block Four (4), of McGee's Addition to the City of Kansas, as per recorded plat, thence running North along the East line of said Lot, on a line parallel with the West line of Walnut Street thirty-seven (37) feet, nine (9) inches, thence West on a line parallel with the South line of Twelfth Street seventy-seven (77) feet; thence South on a line parallel with the West line of Walnut Street eight (8) feet three (3) inches; thence West on a line parallel with the South line of

Twelfth Street thirty-eight (38) feet and six (6) inches to the West line of said Lot Number Forty-seven (47), thence South on East line of alley running North and South through said Block Four (4) twenty-nine (29) feet, six (6) inches to the Southwest corner of said Lot Forty-Seven (47), thence East and parallel with the South line of Twelfth Street one hundred fifteen (115) feet and six (6) inches to the Point of Beginning.

1219 Main: Beginning at the point of intersection of the center line of the right-of-way of Thirteenth Street with the center line of the right-of-way of Main Street; thence north along the center line of the right-of-way of Main Street to its intersection with the westerly prolongation of the north boundary of the south 24.75 feet of Lot 59, Block 4, McGee's Addition; thence east along the northern boundary of the south 24.75 feet of Lot 59, Block 4, McGee's Addition, to the center line of the alley lying east of and adjoining the south 24.75 feet of Lot 59 and all of Lots 60 to 63, inclusive, Block 4, McGee's Addition; thence south along the center line of said alley to the point of intersection of the southerly prolongation of the center line of said alley with the center line of the right-of-way of Thirteenth Street; thence west along the center line of the right-of-way of Thirteenth Street to the point of beginning, which contains the following:

The south one-half of Lot 59, all of Lots 60 to 63, inclusive, Block 4, McGee's Addition, a subdivision in Kansas City, Missouri.

Block 124:

All of Lots 1 through 4, inclusive, Block 8, REID'S ADDITION, a subdivision in Kansas City, Jackson County, Missouri, according to the recorded plat thereof, being more particularly described as follows:

Beginning at the Northwest corner of said Lot 1, being also a point of intersection of the South right-of-way line of 13th Street with the East right-of-way line of Baltimore Avenue, as said street and avenue are now both established; thence East along said South right-of-way line and along the North line of said Lot 1, a distance of 108.10 feet to the Northeast corner thereof; thence South along the East line of said Lots 1 through 4, inclusive, a distance of 100 feet to the Southeast corner of said Lot 4; thence West along the South line of said Lot 4, a distance of 108.10 feet to the Southwest corner thereof; thence North along the West line of said Lots 4 through 1, inclusive, and along the East right-of-way line of said Baltimore Avenue, a distance of 100 feet to the Point of Beginning. Containing 0.248 acres, more or less; and

All of Lots 5 through 8, inclusive, all in Block 8, REID'S ADDITION, a subdivision, according to the recorded plat thereof, together with all of Lots 73 through 76, inclusive, including the North-South alley lying West of and adjacent to the West line of said Lots 73 through 76, inclusive, all in Block 6, McGEE'S ADDITION, a subdivision, according to the recorded plat thereof, all in Kansas City, Jackson County, Missouri, being more particularly described as follows:

Beginning at the Northeast corner of said Lot 73, being also the point of intersection of the South right-of-way line of 13th Street with the West right-of-way line of Main Street, as said streets are now both established; thence South along said West right-of-way line and along the East line of said Block 6, a distance of 148.5 feet to the Southeast corner of said Lot 76, thence West along said the South line of said Lot 76 and its Westerly prolongation, a distance of 146.59 feet to the Southeast corner of Lot 8, Block 8, REID'S ADDITION, a subdivision in said City, County and State, according to the recorded plat thereof; thence West along the South line of said Lot 8, a distance of 108.10 feet to the Southwest corner thereof; thence North along said East right-of-way and along the West line of Lots 8 through 5, inclusive, Block 8, a distance of 99 feet to the Northwest corner of said Lot 5; thence East along the North line of said Lot 5, a distance of 108.10 feet to the Northeast corner; thence North along the East line of Lots 4 through 1, inclusive, of said Block 8, a distance of 100 feet to the Northeast corner of said Lot 1; thence East along the Easterly prolongation of the North line of said Lot 1 and along the South right-of-way line of said 13th Street, a distance of 146.59 feet to the Point of Beginning.

Block 125: A fee simple condominium interest in an elevated condominium unit to be created by the filing of a condominium plan and plat creating a condominium unit over and above the ground containing customary utility, maintenance, use and access rights over the Southerly 158 feet of all of Lots 82 through 99 of Block 7 of McGee's Addition To Kansas City, County of Jackson, State of Missouri, according to the recorded plat thereof.

Block 126: Lots 100 through 117 of Block 8 of McGee's Addition To Kansas City, County of Jackson, State of Missouri, according to the recorded plat thereof.

Block 138: Lots 1, 2, 3 and 4 of Block L of Second Resurvey of Reid's Addition, a subdivision in the City of Kansas City, County of Jackson, State of Missouri, according to the recorded plat thereof.

Lots 7, 8, 9 and 10 of Block 9 of Reid's Addition To Kansas City, County of Jackson, State of Missouri, according to the recorded plat thereof.

Lots 208, 209, 210, 211 and 212 of Block 15 of McGee's Addition To Kansas City, County of Jackson, State of Missouri, according to the recorded plat thereof.

Block 139: Lots 190, 191, 192, 193, 194, 199, 200, 201, 202 and 203 of Block 14 of McGee's Addition To Kansas City, County of Jackson, State of Missouri, according to the recorded plat thereof.

Block 140: Lots 172, 173, 174, 175, 176, 181, 182, 183, 184 and 185 of Block 13 of McGee's Addition To Kansas City, County of Jackson, State of Missouri, according to the recorded plat thereof.

EXHIBIT 1 B

LEGAL DESCRIPTION PROJECT AREA 2

Beginning at the point of intersection of the center line of the right-of-way of 13th Street and the center line of the right-of-way of Walnut Street; thence south along the center line of the right-of-way of Walnut Street to the point of intersection of the center line of the right-of-way of 14th Street; thence west along the center line of the right-of-way of 14th Street to the point of intersection of Main Street; thence north along the center line of the right-of-way of Main; thence east along the center line of the right-of-way of 13th Street to the Point of Beginning. All center-line of right-of-way are as now established.

All or part of other property which includes: Lots 82 through 99 of Block 7 of McGee's Addition To Kansas City, County of Jackson, State of Missouri, according to the recorded plat thereof, however excluding the air rights over the southerly 158 feet of all of Lots 82 through 99 of Block 7 of McGee's Addition to Kansas City, County of Jackson, State of Missouri according to the recorded plat thereof.

EXHIBIT 1B

LEGAL DESCRIPTION PROJECT AREA 3

Hotel President

All of Block E, 2nd RESURVEY OF REID'S ADDITION, a subdivision in Kansas City, Jackson County, Missouri, according to the recorded plat thereof, being more particularly described as follows:

Beginning at the Southwest corner of Lot 4 of said Block E, being also the point of intersection of the North right-of-way line of 14th Street with the East right-of-way line of Baltimore Avenue, as said street and avenue are now both established; thence North along said East right-of-way line and along the West line of said Lot 4, a distance of 130.50 feet to the Northwest corner thereof; thence East along the North line of Lots 4 through 1, inclusive, of said Block E, a distance of 108.10 feet to the Northeast corner of said Lot 1; thence South along the East line of said Lot 1, a distance of 130.50 feet to the Southeast corner thereof; thence West along the South line of said Lots 1 through 4, inclusive, and along the North right-of-way line of said 14th Street, a distance of 108.10 feet to the Point of Beginning. Containing .0324 acres, more or less; and

All of Lots 9 through 12, inclusive, including the vacated alley South of and adjacent to the South line of said Lot 12, all in Block 8, REID'S ADDITION, a subdivision, according to the recorded plat thereof, together with all of Lots 77 through 81, inclusive, including the North-South alley lying West of and adjacent to the West line of said Lots 77 through 81, inclusive, all in Block 6, McGEE'S ADDITION, a subdivision, according to the recorded plat thereof, all in Kansas City, Jackson County, Missouri, being more particularly described as follows:

Missouri, being more particularly described as follows:

Beginning with the Northeast corner of said Lot 77, which is 148.5 feet south of the northeast corner of Lot 73 being also the point of intersection with the West right-of-way line of Main Street, as said streets are now both established; thence South along said West right-of-way line and along the East line of said Block 6, a distance of 297 feet to the Southeast corner of said Lot 81, being also a point of intersection with the North right-of-way line of 14th Street, as now established; thence West along said North right-of-way line and along the South line of said Lot 81 and its Westerly prolongation, a distance of 146.59 feet to the Southeast corner of Lot 1, Block E, 2nd RESURVEY OF REID'S ADDITION, a subdivision in said City, County and State, according to the recorded plat thereof; thence North along the East line of said Lot 1, a distance of 130.50 feet to the Northeast corner thereof; thence West along the North line of Lots 1 through 4, inclusive, of said Block E, a distance of 108.10 feet to the Northwest corner of said Lot 4, being also a point on the East right-of-way line of Baltimore Avenue, as now established; thence North along said East right-of-way and along the West line of Lots 12 through 5, inclusive, Block 8, REID'S ADDITION, a

subdivision in said City, County and State, according to the recorded plat thereof, a distance of 99 feet to the Northwest corner of said Lot 9; thence

East along the North line of said Lot 9, a distance of 108.10 feet, of said Block 8; thence East along the North line of said Lot 77 a distance of 146.59 feet to the Point of Beginning.

EXHIBIT 1 B

LEGAL DESCRIPTION PROJECT AREA 4

Town Pavilion Building Tract:

Beginning at the point of intersection of the center line of the right-of-way of Petticoat Lane with the center line of the right-of-way of Main Street; thence south along the center line of the right-of-way of Main Street to its intersection with the center line of the right-of-way of 12th Street; thence east along the center line of the right-of-way of 12th Street to its intersection with the center line of the right-of-way of Walnut Street; thence north along the center line of the right-of-way of Walnut Street to its intersection with the center line of the right-of-way of Petticoat Lane; thence west along the center line of the right-of-way of Petticoat Lane to the point of beginning; all of which includes, among other property:

All of Lot 1, K J & J Addition; Unit A-1, Unit A-2 and Unit B, K J & J Condominium, a condominium subdivision in Kansas City, Jackson County, Missouri.

EXHIBIT 1B

LEGAL DESCRIPTION PROJECT AREA 5

Transamerica Garage Tract:

Beginning at the point of intersection of the westerly prolongation of the northern boundary of Lot 1, E & A Subdivision with the center line of the right-of-way of Baltimore Avenue; thence south along the center line of the right-of-way of Baltimore Avenue to its intersection with the westerly prolongation of the southern boundary of Lot 1, E & A Subdivision; thence east along the southern boundary of Lot 1, E & A Subdivision to its intersection with the center line of the public alley lying west of Lot 2, E & A Subdivision; thence south along the center line of the public alley lying west of Lot 2, E & A Subdivision to its intersection with the westerly prolongation of the southern boundary of Lot 2, E & A Subdivision; thence east along the southern boundary of Lot 2, E & A Subdivision, to the point of intersection of the easterly prolongation of the southern boundary of Lot 2, E & A Subdivision with the center line of the right-of-way of Main Street; thence north along the center line of the right-of-way of Main Street to the easterly prolongation of the northern boundary of Lot 1, E & A Subdivision; thence west along the northern boundary of Lot 1, E & A Subdivision to its point of intersection with the center line of the north-south public alley lying east of Lot 4, Block 10, Ashburn's Addition; thence north along the center line of the north-south public alley lying east of Lot 4, Block 10, Ashburn's Addition to its intersection with the center line of the east-west public alley lying north of Lot 1, E & A Subdivision; thence west along the center line of the east-west public alley lying north of Lot 1, E & A Subdivision to its intersection with the center line of the right-of-way of Baltimore Avenue; thence south along the center line of the right-of-way of Baltimore Avenue to the point of beginning; all of which includes, among other property:

All of Lots 1 and 2, E & A Subdivision; the south $\frac{1}{2}$ of the east-west public alley lying north of Lot 1, E & A Subdivision; the west $\frac{1}{2}$ of that portion of the north-south public alley lying south of the easterly prolongation of the center line of the east-west public alley lying north of Lot 1, E & A Subdivision; the east $\frac{1}{2}$ of the north-south public alley lying west of Lot 2, E & A Subdivision.

EXHIBIT 1 B

LEGAL DESCRIPTION PROJECT AREA 6

One Kansas City Place Tract:

Beginning at the point of intersection of the center line of the right-of-way of 12th Street and the center line of the right-of-way of Baltimore Avenue; thence south along the center line of the right-of-way of Baltimore Avenue to its intersection with the westerly prolongation of the southern boundary of the northern 14 feet of Lot 12, Block 1, Reid's Addition; thence east along the southern boundary of the northern 14 feet of Lot 12, Block 1, Reid's Addition to its intersection with the eastern boundary of Lot 12, Block 1, Reid's Addition; thence south along the eastern boundary of Lot 12, Block 1, Reid's Addition, and along the eastern boundary of the north 6 feet of Lot 13, Block 1, Reid's Addition, to its intersection with the westerly prolongation of a line 27 ½ feet south of and parallel with the northern boundary of Lot 70, Block 5, McGee's Addition; thence east along a line 27 ½ feet south of and parallel with the northern boundary of Lot 70, Block 5, McGee's Addition, to its intersection with the center line of the right-of-way of Main Street; thence north along the center line of the right-of-way of Main Street to its intersection with the center line of the right-of-way of 12th Street; thence west along the center line of the right-of-way of 12th Street to the point of beginning; all of which includes, among other property:

All of Lots 64 through 69, inclusive, Block 5, McGee's Addition; the north 27 ½ feet of Lot 70, Block 5, McGee's Addition; all of Lots 1 through 4, inclusive, Block A, Resurvey of Reid's Addition; all of Lots 7 through 11, inclusive, Block 1, Reid's Addition; and the north 14 feet of Lot 12, Block 1, Reid's Addition; together with the vacated alley west of and adjacent to Lots 64 through 69, inclusive, Block 5, McGee's Addition, and the north 27 ½ feet of Lot 70, Block 5, McGee's Addition, and east of and adjacent to Lot 1, Block A, Resurvey of Reid's Addition, and Lots 7 through 12, inclusive, Block 1, Reid's Addition, and the north 6 feet of Lot 13, Block 1, Reid's Addition; the vacated alley south of and adjacent to Lots 1 through 4, inclusive, Block A, Resurvey of Reid's Addition and north of and adjacent to Lot 7, Block 1, Reid's Addition, together with that portion of the vacated alley and vacated 12th Street vacated by Ordinance No. 58327 recorded as Document No. K-679831.

EXHIBIT 1 B

LEGAL DESCRIPTION PROJECT AREA 7

Expansion Office Building

A fee simple condominium interest in an elevated condominium unit to be created by the filing of a condominium plat and plan creating a condominium unit over and above the ground and containing customary utility, maintenance, use and access rights over the northern 160 feet of:

Lots 1 through 12 of Block 8 of Reid's Addition to Kansas City, County of Jackson, State of Missouri, according to the recorded plat thereof.

Lots 1,2,3 and 4 of Block E of Second Resurvey of Reid's Addition, a subdivision in the City of Kansas City, County of Jackson, State of Missouri, according to the recorded plat thereof.

Lots 73 through 81, Block 6 of McGee's Addition To Kansas City, County of Jackson, State of Missouri, according to the recorded plat thereof.

F:\R\F\JBT\One KC Place- Parking Garage\Legal Description of Redevelopment Area.doc

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The
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Parking

Parking

Parking

Kansas City
Southern

Mark
Twain
Bldg.

Parking

Peck Bldg.

Commerce
Building

Commerce
Bank
Bldg.
Parking

United Missouri
Bank
(UMB)

UMB
Bank

UMB
Bank

11TH STREET

Mariott/Muehlebach
Hotel

EHMD
Properties

Bank Midwest

Baltimore Avenue
Investments

Kansas City
Hospitality

City Center
Square

Mercantile
Tower &
Bank

Bryant
Bldg.

Professional
Bldg.

National
Garage

Parking

Stein Brother's
Memorial
Park

Palace
Bldg.

Traders
Bank

GRAND AV

ney Allis
za/Garage

Mariott/Muehlebach
Hotel

Holiday
Inn

One
Kansas City
Place

E 12TH ST

Jones
Store

Walnut
Bldg.

Law
Bldg.

Cain
Preston

Parking

E 13TH ST

unicipal
ditorium

WYANDOTTE

BALTIMORE

MAIN

WALNUT

GRAND

MC GEE

E 14TH ST

E 15TH ST



South Loop TIF Parcels

Prepared by the Economic Development Corporation of Kansas City, Missouri MP 12/07/03

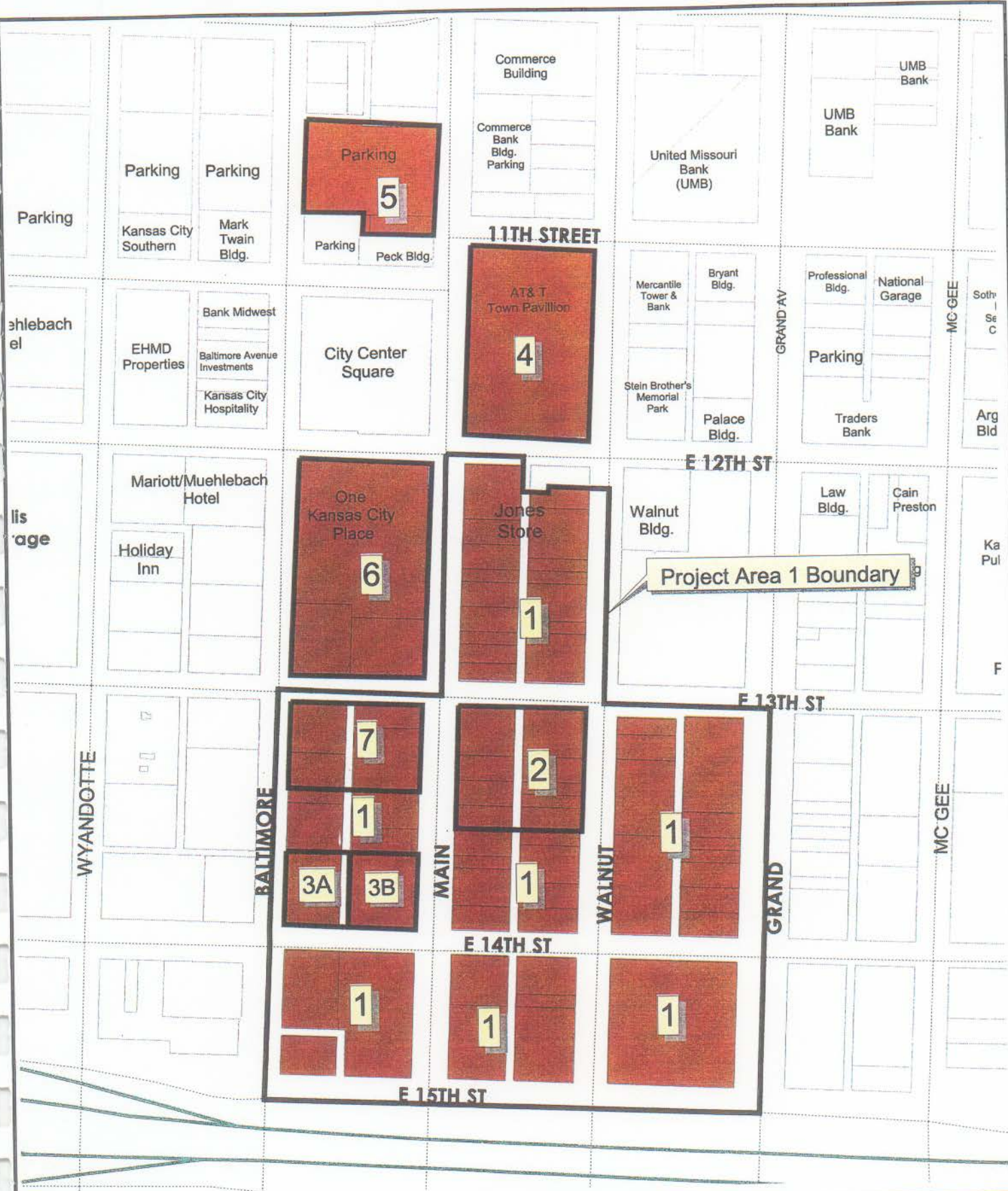


South Loop TIF Project Ground Rights



Prepared by the Economic Development Corporation of Kansas City, Missouri MP 01/13/04

NOT TO SCALE



South Loop TIF Project Air Rights

Prepared by the Economic Development Corporation of Kansas City, Missouri MP 01/13/04



NOT TO SCALE

EXHIBIT 3

SPECIFIC OBJECTIVES OF REDEVELOPMENT PLAN

1. To cure the blighted conditions identified in the blight study, by inter alia, the improvements described in this Plan.
2. To acquire land.
3. To acquire and demolish the vacant Jones Store building.
4. To construct public parking garages.
5. To improve public streets, sidewalks, streetscape and public infrastructure.
6. To construct an 325,000 to 425,000 square feet of an Entertainment District.
7. To rehabilitate office space in One Kansas City Place.
8. To rehabilitate the Hotel President and future expansion of hotel for 320 additional rooms.
9. To construct two office buildings approximately 450,000 to 650,000 square feet and 250,000 to 350,000 square feet.
10. To construct mixed used which includes retail, residential, office and open space.
11. To construct improvements in and parking for the Town Pavilion.
12. To upgrade and refurbish utilities and other infrastructure facilities serving the Redevelopment Area.
13. To enhance the tax base by inducing development of the Redevelopment Area to its highest and best use, benefit taxing districts and encourage private investment in surrounding areas.
14. To promote the health, safety, order convenience, prosperity and general welfare, as well as efficiency and economy in the process of development.
15. To provide development and business opportunities in the Redevelopment Area and surrounding areas.
16. To stimulate construction employment opportunities and increase demand for secondary and support services for the surrounding area.

EXHIBIT 4A

PROJECT AREA 1

CONSTRUCTION TOTALS BY PROJECT AREA*

Please complete the following chart for each Project Area. Reproduce this chart for each Project Area.

	NEW CONSTRUCTION	Existing Structure s to REMAIN AS IS	Existing Structures to be REHABILITATED	Total	Existing Structures to be DEMOLISHED
Square feet of OFFICE Space					
Square feet of RETAIL Space	Approximately 350,000 sq.ft.		Approximately 48,600 sq.ft.		Approx. 903,727 sq.ft.
Square feet of INSTITUTIONAL Space					
Square feet of INDUSTRIAL Space					
Total Square Feet	Approximately 350,000 sq.ft.		Approximately 48,600sq.ft.	Approximately 398,600 sq.ft.	Approx. 903,727 sq.ft.
Number of DWELLING UNITS					
Number of HOTEL ROOMS					
Number of PARKING SPACES	2,000 spaces			2,000 spaces	Surface parking lot 1,500 surface spaces

* A Project Area is defined as a specific geographical area within the overall Plan Area that is developed during a specific time frame

EXHIBIT 4A
PROJECT 2

CONSTRUCTION TOTALS BY PROJECT AREA*

Please complete the following chart for each Project Area. Reproduce this chart for each Project Area.

	NEW CONSTRUCTION	Existing Structure s to REMAIN AS IS	Existing Structures to be REHABILITATED	Total	Existing Structure to be DEMOLISHED
Square feet of OFFICE Space	Approximately 500,000 sq.ft.			Approx. 500,000 sq.ft.	
Square feet of RETAIL Space					
Square feet of INSTITUTIONAL Space					
Square feet of INDUSTRIAL Space					
Total Square Feet	Approximately 500,000 sq.ft.			Approximately 500,000 sq.ft.	
Number of DWELLING UNITS					
Number of HOTEL ROOMS					
Number of PARKING SPACES	1,052 to 1,200 spaces			1,052 to 1,200 spaces	

* A Project Area is defined as a specific geographical area within the overall Plan Area that is developed during a specific time frame

EXHIBIT 4A
Project 3 A

CONSTRUCTION TOTALS BY PROJECT AREA*

Please complete the following chart for each Project Area. Reproduce this chart for each Project Area.

	NEW CONSTRUCTION	Existing Structure s to REMAIN AS IS	Existing Structures to be REHABILITATED	Total		Existing Structure to be DEMOLISHED
Square feet of OFFICE Space						
Square feet of RETAIL Space						
Square feet of INSTITUTIONAL Space						
Square feet of INDUSTRIAL Space						
Total Square Feet						
Number of DWELLING UNITS						
Number of HOTEL ROOMS			214	214		
Number of PARKING SPACES						

* A Project Area is defined as a specific geographical area within the overall Plan Area that is developed during a specific time frame

EXHIBIT 4A
Project 3 B

CONSTRUCTION TOTALS BY PROJECT AREA*

Please complete the following chart for each Project Area. Reproduce this chart for each Project Area.

	NEW CONSTRUCTION	Existing Structure s to REMAIN AS IS	Existing Structures to be REHABILITATED	Total	Existing Structure to be DEMOLISHED
Square feet of OFFICE Space					
Square feet of RETAIL Space					
Square feet of INSTITUTIONAL Space					
Square feet of INDUSTRIAL Space					
Total Square Feet					
Number of DWELLING UNITS					
Number of HOTEL ROOMS	320			320	
Number of PARKING SPACES					

* A Project Area is defined as a specific geographical area within the overall Plan Area that is developed during a specific time frame

EXHIBIT 4A
Project 4

CONSTRUCTION TOTALS BY PROJECT AREA*

Please complete the following chart for each Project Area. Reproduce this chart for each Project Area.

	NEW CONSTRUCTION	Existing Structure s to REMAIN AS IS	Existing Structures to be REHABILITATED	Total	Existing Structure to be DEMOLISHED
Square feet of OFFICE Space					
Square feet of RETAIL Space					
Square feet of INSTITUTIONAL Space					
Square feet of INDUSTRIAL Space					
Total Square Feet					
Number of DWELLING UNITS					
Number of HOTEL ROOMS					
Number of PARKING SPACES					

* A Project Area is defined as a specific geographical area within the overall Plan Area that is developed during a specific time frame

EXHIBIT 4A
Project 5

CONSTRUCTION TOTALS BY PROJECT AREA*

Please complete the following chart for each Project Area. Reproduce this chart for each Project Area.

	NEW CONSTRUCTION	Existing Structure s to REMAIN AS IS	Existing Structures to be REHABILITATED	Total	Existing Structure to be DEMOLISHED
Square feet of OFFICE Space					
Square feet of RETAIL Space					
Square feet of INSTITUTIONAL Space					
Square feet of INDUSTRIAL Space					
Total Square Feet					
Number of DWELLING UNITS					
Number of HOTEL ROOMS					
Number of PARKING SPACES					

* A Project Area is defined as a specific geographical area within the overall Plan Area that is developed during a specific time frame

EXHIBIT 4A**Project 6****CONSTRUCTION TOTALS BY PROJECT AREA***

Please complete the following chart for each Project Area. Reproduce this chart for each Project Area.

	NEW CONSTRUCTION	Existing Structure s to REMAIN AS IS	Existing Structures to be REHABILITATED	Total	Existing Structures to be DEMOLISHED
Square feet of OFFICE Space			Approximately 270,000 sq.ft.	Approximately 270,000 sq.ft.	
Square feet of RETAIL Space					
Square feet of INSTITUTIONAL Space					
Square feet of INDUSTRIAL Space					
Total Square Feet			Approximately 270,000 sq.ft.	Approx. 270,000 sq. ft.	
Number of DWELLING UNITS					
Number of HOTEL ROOMS					
Number of PARKING SPACES					

* A Project Area is defined as a specific geographical area within the overall Plan Area that is developed during a specific time frame

EXHIBIT 4A
Project 7

CONSTRUCTION TOTALS BY PROJECT AREA*

Please complete the following chart for each Project Area. Reproduce this chart for each Project Area.

	NEW CONSTRUCTION	Existing Structures to REMAIN AS IS	Existing Structures to be REHABILITATED	Total	Existing Structures to be DEMOLISHED
Square feet of OFFICE Space	Approximately 250,000 to 350,000 sq. ft.			Approximately 250,000 to 350,000 sq..ft.	
Square feet of RETAIL Space					
Square feet of INSTITUTIONAL Space					
Square feet of INDUSTRIAL Space					
Total Square Feet	Approximately 250,000 to 350,000 sq.ft.			Approximately 250,000 to 350,000 sq.ft.	
Number of DWELLING UNITS					
Number of HOTEL ROOMS					
Number of PARKING SPACES					

* A Project Area is defined as a specific geographical area within the overall Plan Area that is developed during a specific time frame

EXHIBIT 4A

PROJECT AREA 1

CONSTRUCTION TOTALS BY PROJECT AREA*

Please complete the following chart for each Project Area. Reproduce this chart for each Project Area.

	NEW CONSTRUCTION	Existing Structure s to REMAIN AS IS	Existing Structures to be REHABILITATED	Total	Existing Structure: to be DEMOLISHED
Square feet of OFFICE Space					
Square feet of RETAIL Space	Approximately 350,000 sq.ft.		Approximately 48,600 sq.ft.		Approx. 903,727 sq.ft.
Square feet of INSTITUTIONAL Space					
Square feet of INDUSTRIAL Space					
Total Square Feet	Approximately 350,000 sq.ft.		Approximately 48,600sq.ft.	Approximately 398,600 sq.ft.	Approx. 903,727 sq.ft.
Number of DWELLING UNITS					
Number of HOTEL ROOMS					
Number of PARKING SPACES	2,000 spaces			2,000 spaces	Surface parking lot 1,500 surface spaces

* A Project Area is defined as a specific geographical area within the overall Plan Area that is developed during a specific time frame

EXHIBIT 4A
PROJECT 2

CONSTRUCTION TOTALS BY PROJECT AREA*

Please complete the following chart for each Project Area. Reproduce this chart for each Project Area.

	NEW CONSTRUCTION	Existing Structure s to REMAIN AS IS	Existing Structures to be REHABILITATED	Total	Existing Structure to be DEMOLISHED
Square feet of OFFICE Space	Approximately 500,000 sq.ft.			Approx. 500,000 sq.ft.	
Square feet of RETAIL Space					
Square feet of INSTITUTIONAL Space					
Square feet of INDUSTRIAL Space					
Total Square Feet	Approximately 500,000 sq.ft.			Approximately 500,000 sq.ft.	
Number of DWELLING UNITS					
Number of HOTEL ROOMS					
Number of PARKING SPACES	1,052 to 1,200 spaces			1,052 to 1,200 spaces	

* A Project Area is defined as a specific geographical area within the overall Plan Area that is developed during a specific time frame

EXHIBIT 4A**Project 3 A****CONSTRUCTION TOTALS BY PROJECT AREA***

Please complete the following chart for each Project Area. Reproduce this chart for each Project Area.

	NEW CONSTRUCTION	Existing Structure s to REMAIN AS IS	Existing Structures to be REHABILITATED	Total	Existing Structure to be DEMOLISHED
Square feet of OFFICE Space					
Square feet of RETAIL Space					
Square feet of INSTITUTIONAL Space					
Square feet of INDUSTRIAL Space					
Total Square Feet					
Number of DWELLING UNITS					
Number of HOTEL ROOMS			214	214	
Number of PARKING SPACES					

* A Project Area is defined as a specific geographical area within the overall Plan Area that is developed during a specific time frame

EXHIBIT 4A**Project 3 B****CONSTRUCTION TOTALS BY PROJECT AREA***

Please complete the following chart for each Project Area. Reproduce this chart for each Project Area.

	NEW CONSTRUCTION	Existing Structure s to REMAIN AS IS	Existing Structures to be REHABILITATED	Total	Existing Structure to be DEMOLISHED
Square feet of OFFICE Space					
Square feet of RETAIL Space					
Square feet of INSTITUTIONAL Space					
Square feet of INDUSTRIAL Space					
Total Square Feet					
Number of DWELLING UNITS					
Number of HOTEL ROOMS	320			320	
Number of PARKING SPACES					

* A Project Area is defined as a specific geographical area within the overall Plan Area that is developed during a specific time frame

EXHIBIT 4A
Project 4

CONSTRUCTION TOTALS BY PROJECT AREA*

Please complete the following chart for each Project Area. Reproduce this chart for each Project Area.

	NEW CONSTRUCTION	Existing Structure s to REMAIN AS IS	Existing Structures to be REHABILITATED	Total	Existing Structure to be DEMOLISHED
Square feet of OFFICE Space					
Square feet of RETAIL Space					
Square feet of INSTITUTIONAL Space					
Square feet of INDUSTRIAL Space					
Total Square Feet					
Number of DWELLING UNITS					
Number of HOTEL ROOMS					
Number of PARKING SPACES					

* A Project Area is defined as a specific geographical area within the overall Plan Area that is developed during a specific time frame

EXHIBIT 4A
Project 5

CONSTRUCTION TOTALS BY PROJECT AREA*

Please complete the following chart for each Project Area. Reproduce this chart for each Project Area.

	NEW CONSTRUCTION	Existing Structure s to REMAIN AS IS	Existing Structures to be REHABILITATED	Total	Existing Structure to be DEMOLISHED
Square feet of OFFICE Space					
Square feet of RETAIL Space					
Square feet of INSTITUTIONAL Space					
Square feet of INDUSTRIAL Space					
Total Square Feet					
Number of DWELLING UNITS					
Number of HOTEL ROOMS					
Number of PARKING SPACES					

* A Project Area is defined as a specific geographical area within the overall Plan Area that is developed during a specific time frame

EXHIBIT 4A**Project 6****CONSTRUCTION TOTALS BY PROJECT AREA***

Please complete the following chart for each Project Area. Reproduce this chart for each Project Area.

	NEW CONSTRUCTION	Existing Structure s to REMAIN AS IS	Existing Structures to be REHABILITATED	Total	Existing Structures to be DEMOLISHED
Square feet of OFFICE Space			Approximately 270,000 sq.ft.	Approximately 270,000 sq.ft.	
Square feet of RETAIL Space					
Square feet of INSTITUTIONAL Space					
Square feet of INDUSTRIAL Space					
Total Square Feet			Approximately 270,000 sq.ft.	Approx. 270,000 sq. ft.	
Number of DWELLING UNITS					
Number of HOTEL ROOMS					
Number of PARKING SPACES					

* A Project Area is defined as a specific geographical area within the overall Plan Area that is developed during a specific time frame

EXHIBIT 4A
Project 7

CONSTRUCTION TOTALS BY PROJECT AREA*

Please complete the following chart for each Project Area. Reproduce this chart for each Project Area.

	NEW CONSTRUCTION	Existing Structures to REMAIN AS IS	Existing Structures to be REHABILITATED	Total	Existing Structures to be DEMOLISHED
Square feet of OFFICE Space	Approximately 250,000 to 350,000 sq. ft.			Approximately 250,000 to 350,000 sq. ft.	
Square feet of RETAIL Space					
Square feet of INSTITUTIONAL Space					
Square feet of INDUSTRIAL Space					
Total Square Feet	Approximately 250,000 to 350,000 sq.ft.			Approximately 250,000 to 350,000 sq.ft.	
Number of DWELLING UNITS					
Number of HOTEL ROOMS					
Number of PARKING SPACES					

* A Project Area is defined as a specific geographical area within the overall Plan Area that is developed during a specific time frame

EXHIBIT 4 B

Employment Information

This employment information includes Project 1, 2, and 3a.

Permanent jobs to be CREATED IN Kansas City	2,034
Permanent jobs to be RELOCATED TO Kansas City	
Permanent jobs to be RETAINED IN Kansas City	1,493
TOTAL	3,586
Anticipated Annual Payroll	\$162,436,000
Estimated number of construction workers to be hired during construction phase	2,200

EXHIBIT 5 A
12 SOUTH LOOP TIF PLAN
ESTIMATED REDEVELOPMENT PROJECT COSTS

	ESTIMATED TOTAL PROJECT COSTS	REIMBURSABLE FROM TIF REVENUES	DEVELOPER EQUITY/ OTHER FINANCING
TIF COMMISSION EXPENSES¹			
1. Estimated Reimbursable Costs for Plan Implementation			
A. Legal	\$175,000	\$175,000	0
B. Agenda	2,000	2,000	0
C. Staff Time	70,000	70,000	
D. Miscellaneous	30,000	30,000	0
2. Plan Administration Expenses	150,000	150,000	0
Subtotal	\$427,000	\$427,000	\$0
<u>PROJECT AREA 1 -Entertainment District</u>			
Site	\$41,414,639	\$41,414,639	
Public Parking Structures	\$24,250,000	\$24,250,000	0
Retail Construction	95,625,000	54,000,000	41,625,000
Public Infrastructure	20,000,000	20,000,000	0
Architectural/Engineering Fees	2,250,000	2,250,000	0
SUBTOTAL	\$183,539,639	\$141,914,639	\$41,625,000
Final Development Project 1 and 2			
Approval Fees (\$.05 per square foot@ 925,000)	\$46,250	\$0	\$0
<u>PROJECT AREA 2 -H&R Block Office Building</u>			
Site	\$59,439,790	\$59,439,790	
Public Parking Structures	22,876,194	\$22,876,194	
Tenant Improvement	27,565,985	\$27,565,985	
Developer Fee	3,845,869	\$3,845,869	\$0
Furniture, Fixtures and Equipment	10,000,000	\$7,589,986	\$2,410,014
Pre-Occupancy Costs	13,671,250		\$13,671,250
Interest Expense	\$ 171,000,000	\$ 171,000,000	\$ -
SUBTOTAL	\$308,399,088	\$292,317,824	\$16,081,264

	ESTIMATED TOTAL PROJECT COSTS	REIMBURSABLE FROM TIF REVENUES	DEVELOPER EQUITY/ OTHER FINANCING
Project 3A - Hotel President Renovation			
Land Acquisition Cost and Short Term Debt	2,550,000	2,550,000	0
Hotel Construction Costs - Hard Costs	24,822,395	11,477,185	13,345,210
Architect & Engineering	2,421,532	-	2,421,532
Furniture, Fixtures & Equipment	5,550,000	-	5,550,000
Environmental Abatement	2,025,455	472,815	1,552,640
Brownfield Legal Expense	242,086	-	242,086
Developers Fees	367,981	-	367,981
Pre Opening Expenses	500,000	-	500,000
Owners Development Costs (appraisal, envr)	724,545	-	724,545
Financing Fees	1,281,000	-	1,281,000
Legal Fees, Title, Closing Costs	523,013	-	523,013
Inspecting Engineer (HDR Engineering)	45,000	-	45,000
Interest Reserve	1,044,620	-	1,044,620
Contingency	1,000,000	-	1,000,000
Operating Allowance	1,000,000	-	1,000,000
SUBTOTAL	\$44,097,627	\$14,500,000	\$29,597,627
Final Development Project 3A			
Approval Fees (\$.05 per square foot@ 247,254)	\$12,363	\$0	\$0

* The first draw from the Project Fund will be used to reimburse the Developer for the out-of-pocket costs expended for land acquisition, hard construction costs, environmental abatement and a portion of the architectural and engineering fees.

**The Hotel Hard Construction Costs includes approximately \$222,000 in streetscape and public right-of-way improvements.

*** No TIF Proceeds will be used to fund furniture, fixtures or equipment.

**** Developer has been, or will be, issued federal and state historic tax credits and brownfield redevelopment tax credits, the proceeds from the sale of which will fund a portion of developer's costs. The proceeds of the sale of those tax credits is estimated to be as follows: federal --\$6,246,000; state -- \$7,578,746; brownfield -- \$1,707,086; total --

	ESTIMATED TOTAL PROJECT COSTS	REIMBURSABLE FROM TIF REVENUES	DEVELOPER EQUITY/ OTHER FINANCING
Project 4 ²	\$0	\$0	\$0
Project 5 ²	\$0	\$0	\$0
Project 6 ²	\$0	\$0	\$0
Project 7 ²	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
TOTAL	\$536,463,354	\$449,159,463	\$87,303,891

¹ The selected developer shall pay all fees and expenses of the TIF Commission for Plan preparation, approval and implementation including, but not limited to, staff time, agenda costs, legal fees, printing and publication of notices. The selected developer shall be billed for these expenses by the Commission as needed. These expenses shall be considered reimbursable project costs to the developer from the Special Allocation Fund.

In addition, the Commission has determined that those planning and special services expenses of the Commission which cannot be directly attributable to a particular project are nonetheless reasonable and necessary for the operation of the Commission and are incidental to the project. These incidental costs will be recovered by the Commission from the Special Allocation Fund in an amount not to exceed five percent (5%) of the PILOTS and Economic Activity Taxes paid annually into the fund.

² Plan to be amended at the time of submission of specific projects.

*** The amounts included herein are estimated expenses stated in 2003 dollars.

EXHIBIT 5 B

ESTIMATED REDEVELOPMENT SCHEDULE

<u>PROJECT</u>	<u>COMPLETE</u>
Project 1 Kansas City LIVE Site Development/Tenant Finish	0 + 36 months
Project 2 H&R Block Office Building Construction of Parking Garage	0 + 36 months
Project 3A Renovation of Hotel President	0+ 24 months
Project 3B Hotel President Expansion	0+120 months
Project 4 Town Pavilion	0+120 months
Project 5 Trans America Parking Garage	0+120 months
Project 6 Renovation of One Kansas City Place	0+120 months
Project 7 H&R Block Office Expansion	0+120 months

Note: "0" is the date of Plan approval

SOLO -- Scenario 1 - CORDISH
Tax Increment Financing Revenue Projections

EATS/PILOTS														Super TIF				
														Local		State		
Year	Utilities	Individual Earnings	TDD Tax	City Sales Tax	Co.Sales Tax	Total EATS Per TIF	PILOTS	5% TIF Admin. Fee	Total TIF (Statutory)	Utilities	Individual Earnings	TDD Tax	City Sales Tax	Sales Tax	Earnings Tax	Total Super TIF	TOTAL TIF TIF/STIF	
1	\$ 47,000	\$ 157,000	\$ 876,000	\$ 3,152,600	\$ 657,000	\$ 4,889,500	\$ 1,501,000	(319,525)	\$ 6,070,975	\$ 47,000	\$ 157,000	\$ 876,000	\$ 3,152,500	\$ 2,802,000	\$ 505,000	\$ 7,538,500	13,610,475	
2	47,940	160,140	893,520	3,215,550	670,140	4,987,290	1,508,505	(324,790)	6,171,005	47,940	160,140	893,520	3,215,550	2,858,040	515,100	7,690,290	13,861,295	
3	48,899	163,343	911,390	3,279,861	683,543	5,087,036	1,516,048	(330,154)	6,272,929	48,899	163,343	911,390	3,279,861	2,915,201	525,402	7,844,096	14,117,025	
4	49,877	166,610	929,618	3,345,458	697,214	5,186,777	1,523,828	(335,620)	6,376,784	49,877	166,610	929,618	3,345,458	2,973,505	535,910	8,000,978	14,377,762	
5	50,874	169,942	948,211	3,412,367	711,156	5,292,552	1,531,246	(341,190)	6,482,603	50,874	169,942	948,211	3,412,367	3,032,975	546,626	8,160,997	14,643,605	
6	51,892	173,341	967,175	3,480,615	725,381	5,398,403	1,538,902	(346,865)	6,590,440	51,892	173,341	967,175	3,480,615	3,093,634	557,561	8,324,217	14,914,657	
7	52,930	176,807	986,518	3,550,227	739,869	5,506,371	1,546,597	(352,648)	6,700,319	52,930	176,807	986,518	3,560,227	3,155,507	568,712	8,490,702	15,191,021	
8	53,988	180,344	1,006,249	3,621,232	754,686	5,616,499	1,554,330	(358,541)	6,812,287	53,988	180,344	1,006,249	3,621,232	3,218,617	580,086	8,660,516	15,472,802	
9	55,068	183,951	1,026,374	3,693,656	769,780	5,728,829	1,562,101	(364,546)	6,928,383	55,068	183,951	1,026,374	3,693,656	3,282,990	591,688	8,833,726	15,760,109	
10	56,169	187,630	1,046,901	3,767,529	785,176	5,843,405	1,569,912	(370,666)	7,042,651	56,169	187,630	1,046,901	3,767,529	3,348,649	603,522	9,010,400	16,053,051	
11	57,293	191,382	1,067,839	3,842,880	800,879	5,960,273	1,577,761	(376,902)	7,161,133	57,293	191,382	1,067,839	3,842,880	3,415,622	615,592	9,190,808	16,351,741	
12	58,439	195,210	1,089,196	3,919,738	816,897	6,079,479	1,585,650	(383,256)	7,281,872	58,439	195,210	1,089,196	3,919,738	3,483,935	627,904	9,374,421	16,656,293	
13	59,607	199,114	1,110,980	3,998,132	833,235	6,201,068	1,593,578	(389,732)	7,404,914	59,607	199,114	1,110,980	3,998,132	3,553,614	640,462	9,561,909	16,966,823	
14	60,800	203,096	1,133,199	4,078,095	849,900	6,325,090	1,601,546	(396,332)	7,530,304	60,800	203,096	1,133,199	4,078,095	3,624,686	653,271	9,753,147	17,283,451	
15	62,016	207,158	1,155,863	4,159,657	866,898	6,451,591	1,609,554	(403,057)	7,658,086	62,016	207,158	1,155,863	4,159,657	3,697,179	666,337	9,948,210	17,606,298	
16	63,256	211,301	1,178,981	4,242,850	884,235	6,580,623	1,617,602	(409,911)	7,788,314	63,256	211,301	1,178,981	4,242,850	3,771,123	679,664	10,147,174	17,935,486	
17	64,521	215,527	1,202,560	4,327,707	901,920	6,712,236	1,625,690	(416,896)	7,921,029	64,521	215,527	1,202,560	4,327,707	3,848,546	693,257	10,350,118	18,271,147	
18	65,811	219,838	1,226,611	4,414,261	919,959	6,846,480	1,633,818	(424,015)	8,056,284	65,811	219,838	1,226,611	4,414,261	3,923,476	707,122	10,557,120	18,613,404	
19	67,128	224,235	1,251,144	4,502,546	938,358	6,983,410	1,641,967	(431,270)	8,194,127	67,128	224,235	1,251,144	4,502,546	4,001,946	721,264	10,768,263	18,962,390	
20	68,470	228,719	1,276,167	4,592,597	957,125	7,123,078	1,650,197	(438,664)	8,334,612	68,470	228,719	1,276,167	4,592,597	4,081,985	735,590	10,983,628	19,318,240	
21	69,840	233,294	1,301,690	4,684,449	976,267	7,265,540	1,658,448	(446,199)	8,477,789	69,840	233,294	1,301,690	4,684,449	4,163,625	750,403	11,203,900	19,681,089	
22	71,236	237,860	1,327,724	4,776,138	995,793	7,410,851	1,666,741	(453,880)	8,623,712	71,236	237,860	1,327,724	4,776,138	4,248,897	765,412	11,427,366	20,051,078	
23	72,661	242,719	1,354,278	4,873,701	1,015,709	7,559,068	1,675,074	(461,707)	8,772,435	72,661	242,719	1,354,278	4,873,701	4,331,835	780,720	11,655,914	20,428,348	
Total	\$ 1,355,713	\$ 4,528,659	\$ 25,268,188	\$ 90,933,747	\$ 18,951,141	\$ 141,037,448	\$ 36,489,915	\$ (8,876,368)	\$ 168,650,995	\$ 1,355,713	\$ 4,528,659	\$ 25,268,189	\$ 90,933,747	\$ 80,823,587	\$ 14,568,706	\$ 217,476,600	\$ 366,127,595	

SOLO -- Scenario 1(Phase I)(12/13/03)

Tax Increment Financing Revenue Projections

EATS/PILOTS

Super TIF

Local		State
-------	--	-------

Year	Utilities	Individual Earnings	Corporate Earnings	Total EATS Per TIF	PILOTS	5% TIF Admin. Fee	Total TIF (Statutory)
1	\$ 45,310	\$ 504,900	\$ 59,000	\$ 609,210	\$ 2,000,000	(130,461)	\$ 2,478,750
2	45,763	546,049	60,770	652,582	2,000,000	(132,629)	2,519,953
3	46,221	590,552	62,593	699,366	2,030,000	(136,468)	2,592,898
4	46,683	638,682	64,471	749,836	2,030,000	(138,992)	2,640,844
5	47,150	664,421	66,405	777,976	2,060,450	(141,921)	2,696,505
6	47,621	691,197	68,397	807,216	2,060,450	(143,383)	2,724,283
7	48,097	719,053	70,449	837,599	2,091,357	(146,448)	2,782,508
8	48,578	740,624	72,563	861,765	2,091,357	(147,656)	2,805,466
9	49,064	762,843	74,739	886,647	2,122,727	(150,469)	2,858,905
10	49,555	785,728	76,982	912,265	2,122,727	(151,750)	2,883,242
11	50,050	809,300	79,291	938,642	2,154,568	(154,660)	2,938,549
12	50,551	833,579	81,670	965,800	2,154,568	(156,018)	2,964,350
13	51,056	858,587	84,120	993,763	2,186,887	(159,032)	3,021,617
14	51,567	884,344	86,643	1,022,555	2,186,887	(160,472)	3,048,969
15	52,083	910,874	89,243	1,052,200	2,219,690	(163,594)	3,108,295
16	52,604	938,201	91,920	1,082,724	2,219,690	(165,121)	3,137,293
17	53,130	966,347	94,678	1,114,154	2,252,985	(168,357)	3,198,782
18	53,661	995,337	97,518	1,146,516	2,252,985	(169,975)	3,229,526
19	54,197	1,025,197	100,444	1,179,838	2,286,780	(173,331)	3,293,287
20	54,739	1,055,953	103,457	1,214,149	2,286,780	(175,046)	3,325,883
21	55,287	1,087,632	106,561	1,249,479	2,321,082	(178,528)	3,392,033
22	55,840	1,120,261	109,757	1,285,858	2,321,082	(180,347)	3,426,592
23	56,398	1,153,869	113,050	1,323,317	2,355,898	(183,961)	3,495,254

Total \$ 1,165,206 \$ 19,283,532 \$ 1,914,720 \$ 22,363,458 \$ 49,808,948 \$ (3,608,620) \$ 68,563,785

Utilities	Individual Earnings	Corporate Earnings	Income Tax	Total Super TIF	TOTAL TIF/STIF
\$ 45,310	\$ 504,900	\$ 59,000	\$ 1,640,925	\$ 2,250,135	4,728,885
45,763	546,049	60,770	1,774,660	2,427,243	4,947,196
46,221	590,552	62,593	1,919,295	2,618,661	5,211,559
46,683	638,682	64,471	2,075,718	2,825,554	5,466,398
47,150	664,421	66,405	2,159,369	2,937,345	5,633,850
47,621	691,197	68,397	2,246,392	3,053,608	5,777,890
48,097	719,053	70,449	2,336,921	3,174,521	5,957,029
48,578	740,624	72,563	2,407,029	3,268,794	6,074,260
49,064	762,843	74,739	2,479,240	3,365,887	6,224,792
49,555	785,728	76,982	2,553,617	3,465,882	6,349,124
50,050	809,300	79,291	2,630,226	3,568,867	6,507,416
50,551	833,579	81,670	2,709,132	3,674,932	6,639,282
51,056	858,587	84,120	2,790,406	3,784,169	6,805,786
51,567	884,344	86,643	2,874,119	3,896,673	6,945,642
52,083	910,874	89,243	2,960,342	4,012,542	7,120,837
52,604	938,201	91,920	3,049,152	4,131,877	7,269,170
53,130	966,347	94,678	3,140,627	4,254,781	7,453,563
53,661	995,337	97,518	3,234,846	4,381,362	7,610,888
54,197	1,025,197	100,444	3,331,891	4,511,729	7,805,017
54,739	1,055,953	103,457	3,431,848	4,645,997	7,971,880
55,287	1,087,632	106,561	3,534,803	4,784,282	8,176,315
55,840	1,120,261	109,757	3,640,847	4,926,705	8,353,298
56,398	1,153,869	113,050	3,750,073	5,073,389	8,568,643

\$ 1,165,206 \$ 19,283,532 \$ 1,914,720 \$ 62,671,479 \$ 85,034,936 \$ 153,598,721

Pres TIF Projections

Hotel President Block TIF Plan
Phase I (214 Room Renovation/Upgrade of President Hotel)
TIF Revenue Projections
HVS Scenario 2

Taxes Available Under Statutory TIF							
Year	F&B Sales	F&B CVT	Individual Earnings	Total EATS Per TIF	PILOTS	5% TIF Admin. Fee	Total TIF (Statutory)
1	\$ 55,885	\$ 40,644	\$ 20,000	\$ 116,529	\$ 590,985	(35,376)	\$ 672,138
2	61,606	44,804	20,600	127,009	590,985	(35,900)	682,095
3	65,533	47,661	21,218	134,412	599,850	(36,713)	697,549
4	68,206	49,805	21,855	139,665	599,850	(36,976)	702,539
5	70,249	51,090	22,610	143,849	608,847	(37,635)	715,062
6	72,356	52,823	23,185	148,164	608,847	(37,851)	719,161
7	74,529	54,203	23,881	152,612	617,980	(38,530)	732,063
8	76,766	55,830	24,597	157,193	617,980	(38,759)	736,415
9	79,068	57,504	25,335	161,908	627,250	(39,458)	749,700
10	81,441	59,230	26,095	166,767	627,250	(39,701)	754,316
11	83,885	61,007	26,878	171,770	636,659	(40,421)	768,007
12	86,401	62,837	27,685	176,923	636,659	(40,679)	772,902
13	88,993	64,722	28,515	182,231	646,209	(41,422)	787,017
14	91,668	66,664	29,371	187,697	646,209	(41,695)	792,211
15	94,413	68,664	30,252	193,328	655,902	(42,462)	808,769
16	97,245	70,724	31,159	199,128	655,902	(42,751)	812,278
17	100,162	72,845	32,094	205,102	665,740	(43,542)	827,300
18	103,167	75,031	33,057	211,255	665,740	(43,850)	833,148
19	106,262	77,282	34,049	217,593	675,726	(44,666)	848,653
20	109,450	79,600	35,070	224,121	675,726	(44,992)	854,854
21	112,734	81,988	36,122	230,844	685,862	(45,835)	870,871
22	116,116	84,448	37,206	237,770	685,862	(46,182)	877,450
23	119,599	86,981	38,322	244,903	696,150	(47,053)	894,000
Total	\$ 2,015,730	\$ 1,465,986	\$ 649,068	\$ 4,130,774	\$ 14,718,169	\$ (942,447)	\$ 17,906,496

Assumptions:

SALES TAX DETAIL			
KCMO General	2.0000%	KCMO F&B CVT	2.0000%
ATA Portion	0.0000%	KCMO HOTEL CVT	7.5000%
Net KCMO	2.0000%	KCMO HOTEL CVT	
Jackson Co.	0.7500%	(% available)	90%
Total Local	2.7500%	Earnings Tax	1%

Statutory EATS are 50% of total economic activity taxes collected by City and County
Project consists of rehabilitation of the President Hotel resulting in 214 rooms

F&B Sales – Sales increase when stabilization occurs in Year 3:	\$ 4,766,070
Base year sales assumed to be \$0	Tax Rate: 2.7500%
Inflation at 3% per year thereafter	% of Tax Captured: 50%

F&B CVT – Sales increase when stabilization occurs in Year 3:	\$ 4,766,070
Base year sales assumed to be \$0	Tax Rate: 2.0000%
Inflation at 3% per year thereafter	% of Tax Captured: 50%

Individual Earnings --	
Number of employees:	120
Average Annual Salary:	\$ 33,333
Base year earnings:	-
Inflation at 3% per year thereafter	
Increase over Base: \$ 4,000,000	
Tax Rate: 1.0000%	
% Captured: 50%	

PILOTS -- Property tax increment; Value Approach	
Estimated value (per room) of Hotel upon completion of construction:	\$ 112,150
Total projected appraised value:	\$ 24,000,100
Assessed at 32%; tax rate of \$7.803 per \$100 value	Projected Yr. 1 Assessment: \$ 7,680,032
Inflation @ 1.5% every other year	Initial Equalized Assessed Value: \$ 106,215

Pres TIF Projections

Taxes Available Under Super TIF						
Year	Hotel Sales	Hotel CVT	F&B Sales	F&B CVT	Individual Earnings	Total Super TIF
1	\$ 111,350	\$ 375,807	\$ 40,844	\$ 40,844	\$ 20,000	\$ 588,444
2	128,587	433,983	44,804	44,804	20,600	672,778
3	139,966	472,384	47,661	47,661	21,218	728,889
4	146,296	493,748	49,605	49,605	21,855	761,108
5	150,677	508,533	51,090	51,090	22,510	783,900
6	155,197	523,789	52,623	52,623	23,185	807,416
7	159,856	539,515	54,203	54,203	23,881	831,658
8	164,655	555,712	55,830	55,830	24,597	856,624
9	169,584	572,379	57,504	57,504	25,335	882,317
10	174,683	589,557	59,230	59,230	26,095	908,798
11	179,924	607,243	61,007	61,007	26,878	936,060
12	185,322	625,461	62,837	62,837	27,685	964,141
13	190,881	644,224	64,722	64,722	28,515	993,066
14	196,608	663,551	66,664	66,664	29,371	1,022,658
15	202,506	683,458	68,664	68,664	30,252	1,053,543
16	208,581	703,962	70,724	70,724	31,159	1,085,150
17	214,839	725,080	72,845	72,845	32,094	1,117,704
18	221,284	746,833	75,031	75,031	33,057	1,151,235
19	227,922	769,236	77,282	77,282	34,049	1,185,772
20	234,760	792,315	79,600	79,600	35,070	1,221,345
21	241,803	816,064	81,988	81,988	36,122	1,257,988
22	249,057	840,567	84,448	84,448	37,206	1,295,725
23	256,529	865,784	86,981	86,981	38,322	1,334,597

Total \$ 4,310,876 \$ 14,549,207 \$ 1,465,986 \$ 1,465,986 \$ 649,058 \$ 22,441,112

Assumptions:

SALES TAX DETAIL			
KCMO General	2.0000%	KCMO F&B CVT	2.0000%
ATA Portion	0.0000%	KCMO HOTEL CVT	7.5000%
Net KCMO	2.0000%	KCMO HOTEL CVT	
Jackson Co.	0.0000%	(% available)	90%
Total Local	2.0000%	Earnings Tax	1%

Super TIF EATS are remaining 50% of economic activity taxes collected by City and the CVT on rooms
Project consists of rehabilitation of the President Hotel resulting in 214 rooms

Hotel Sales -- 214 rooms; Stabilization occurs in Year 3 @ ADR of:	\$127.90
Base year sales assumed to be \$0	Tax Rate: 2.0000%
Inflation at 3% per year thereafter	% of Tax Captured: 100%

F&B Sales -- Sales increase when stabilization occurs in Year 3:	\$ 4,766,070
Base year sales assumed to be \$0	Tax Rate: 2.0000%
Inflation at 3% per year thereafter	% of Tax Captured: 50%

F&B CVT -- Sales increase when stabilization occurs in Year 3:	\$ 4,766,070
Base year sales assumed to be \$0	Tax Rate: 2.0000%
Inflation at 3% per year thereafter	% of Tax Captured: 50%

Individual Earnings --		
Number of employees:	120	Increase over base: \$ 4,000,000
Average Annual Salary:	\$ 33,333	Tax Rate: 1.0000%
Base year earnings:	\$ -	% Captured: 50%
Inflation at 3% per year thereafter		

Hotel CVT -- 90% of CVT tax on rooms; inflation at 3% per year thereafter	\$127.90
Calculation does not assume a base year	
	Initial Room Revenue: \$ 5,567,507
	Tax Rate: 7.5000%
	% of Tax Captured: 90%

Pres TIF Projections

Total TIF & SuperTIF Revenues					
TOTAL TIF / STIF	Cumulative Annual TIF	125% Coverage Factor	4.50% PV FACTOR	Present Value of Total TIF at 4.50%	Cumulative Annual TIF at Present Value
\$ 1,260,583	\$ 1,260,583	\$ 1,008,486	0.95647	\$ 964,572	\$ 964,572
1,354,873	2,615,456	1,083,898	0.91484	991,597	1,956,169
1,426,438	4,041,893	1,141,150	0.87502	998,534	2,954,703
1,463,647	5,505,541	1,170,918	0.83694	979,986	3,934,689
1,498,962	7,004,502	1,199,189	0.80051	969,947	4,894,637
1,526,578	8,531,080	1,221,262	0.76567	935,081	5,829,717
1,563,720	10,094,800	1,250,976	0.73234	916,142	6,745,859
1,593,039	11,687,839	1,274,431	0.70047	892,696	7,638,554
1,632,017	13,319,857	1,305,614	0.66998	874,732	8,513,287
1,663,111	14,982,968	1,330,489	0.64082	852,599	9,365,886
1,704,066	16,687,035	1,363,253	0.61292	835,571	10,201,457
1,737,044	18,424,078	1,389,635	0.58625	814,669	11,016,126
1,780,088	20,204,161	1,424,086	0.56073	798,517	11,814,643
1,815,068	22,019,229	1,452,055	0.53632	778,772	12,593,414
1,860,312	23,879,541	1,488,249	0.51298	763,442	13,356,857
1,897,428	25,776,969	1,517,942	0.49065	744,762	14,101,638
1,945,004	27,721,973	1,556,003	0.46930	730,227	14,831,865
1,984,381	29,706,354	1,587,505	0.44887	712,583	15,544,448
2,034,425	31,740,779	1,627,540	0.42933	698,758	16,243,205
2,076,200	33,816,979	1,660,960	0.41065	682,066	16,925,271
2,126,857	35,945,835	1,703,085	0.39277	668,925	17,594,195
2,173,175	38,119,011	1,738,540	0.37568	653,129	18,247,324
2,228,597	40,347,608	1,782,878	0.35932	640,633	18,887,957
\$ 40,347,608		\$ 32,278,086		\$ 18,887,957	

30

(2,124,895) Months Capital Int.

\$ 16,763,061	Net For Project Finance
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EXHIBIT 7
PROJECT 1

A. SOURCES OF FUNDS FOR
ALL ESTIMATED REDEVELOPMENT PROJECT COSTS

1. Amount of Reimbursable Costs from PILOTS And Economic Activity Taxes	\$141,914,639
2. Developer	<u>\$ 41,625,000</u>
TOTAL	\$183,539,639

B. BONDS

The total estimated amount of PILOTS and Economic Activity Taxes over the twenty-three years of reimbursable project cost in this Plan from Project 1 as provided in the Act is approximately \$168,650,995. The Commission may dedicate part or this entire amount to help support the issuance of bonds.

EXHIBIT 7
PROJECT 2

B. SOURCES OF FUNDS FOR
ALL ESTIMATED REDEVELOPMENT PROJECT COSTS

1. Amount of Reimbursable Costs from PILOTS And Economic Activity Taxes	\$292,317,824
2. Developer	<u>\$ 16,081,264</u>
TOTAL	\$308,399,088

C. BONDS

The total estimated amount of PILOTS and Economic Activity Taxes over the twenty-three years of reimbursable project cost in this Plan from Project 2 as provided in the Act is approximately \$68,563,785. The Commission may dedicate part or this entire amount to help support the issuance of bonds.

EXHIBIT 7
PROJECT 3A

C. SOURCES OF FUNDS FOR
ALL ESTIMATED REDEVELOPMENT PROJECT COSTS

1. Amount of Reimbursable Costs from PILOTS And Economic Activity Taxes	\$ 14,500,000
2. Developer	<u>\$ 29,597,627</u>
TOTAL	\$ 44,097,627

D. BONDS

The total estimated amount of PILOTS and Economic Activity Taxes over the twenty-three years of reimbursable project cost in this Plan from Project 3 as provided in the Act is approximately \$17,906,496. The Commission may dedicate part or this entire amount to help support the issuance of bonds.

JOINT DEVELOPMENT RES

Summary of Costs and Benefits

Analysis

South Loop TIF Plan

[illegible]

NET ECONOMIC BENEFITS

PER PUBLIC COSTS

NET PUBLIC REVENUES

Summary of Costs and Benefits

South Loop TIF Plan

[illegible]

Total Economic Benefits

HRB - IRR Analysis

IRR Calculation WITH TIF				
	1.7%			
Equity Investment (At Start)	26,044,034	PV Factor	1.000000	Valuation
1	5,205,199		0.9834946	26,044,034
2	4,986,888		0.9672617	5,119,286
3	4,722,524		0.9512957	4,823,625
4	4,467,685		0.9355932	4,492,522
5	4,303,234		0.9201529	4,179,945
6	4,156,193		0.9049554	3,956,872
7	3,977,055		0.8900287	3,761,211
8	3,859,823		0.8753334	3,539,593
9	3,709,292		0.8606907	3,378,552
10	3,584,959		0.8466814	3,193,295
10	Net Sale (77,389,744)		0.8466814	3,035,318
	Proceeds			(95,524,454)
				0
				IRR= 1.7%

IRR Calculation NO TIF				
	-9.0%			
Equity Investment (At Start)	26,044,034	PV Factor	1.000000	Valuation
1	9,934,084		1.0993616	26,044,034
2	9,934,084		1.2065959	10,921,150
3	9,934,084		1.3286839	12,006,293
4	9,934,084		1.4607040	13,199,257
5	9,934,084		1.6056418	14,510,756
6	9,934,084		1.7654008	15,952,567
7	9,934,084		1.9406138	17,537,539
8	9,934,084		2.1336561	19,280,207
9	9,934,084		2.3456596	21,195,919
10	9,934,084		2.5787280	23,301,978
10	Net Sale (77,389,744)		2.5787280	25,617,300
	Proceeds			(199,567,099)
				0
				IRR= -9.0%

Project Assumptions (with TIF)				
Total Cost of Investment:	\$137,399,088			
Private Equity:	\$26,044,034			
Private Debt:	\$111,355,054			
Loan to Cost Ratio:	90%			
Loan Rate:	7.00%			
Loan Term (Yrs):	22			
23 Yr. TIF:	\$145,030,078			
Sale Price:				
Method:	3.00% Apprec. On Cost			
	10 Yr. Sale			
	161,111,342 Sale Price (\$)			
	2.00% sale commission			
	(3,222,227) sale commission (\$)			
	(80,499,371) loan balance (\$)			
	77,389,744 Net Amount Valued (\$)			

Project Budget	
Rentable Square Feet - Phase I	500,000
Total Project Costs - Phase I	
Building	\$59,439,790
Parking	\$22,876,194
Tenant Improvements	\$27,565,985
Developer Fee	\$3,845,869
FF&E	\$10,000,000
Pre-Occupancy Costs	\$13,671,250
Total Phase I - Total \$'s	\$137,399,088
Total Phase I - PSF	\$274.80

Project Assumptions (without TIF)				
Total Cost of Investment:	\$137,399,088			
Private Equity:	\$26,044,034			
Private Debt:	\$111,355,054			
Loan to Cost Ratio:	90%			
Loan Rate:	7.00%			
Loan Term (Yrs):	22			
23 Yr. TIF:	\$0			
Sale Price:				
Method:	3.00% Apprec. On Cost			
	10 Yr. Sale			
	161,111,342 Sale Price (\$)			
	2.00% sale commission			
	(3,222,227) sale commission (\$)			
	(80,499,371) loan balance (\$)			
	77,389,744 Net Amount Valued (\$)			

In a self-financed transaction the owner would seek a break even return. The "with-TIF" calculation produces a slightly better than break even return. The "without-TIF" calculation produces a loss to the owner.

Cordish - IRR Analysis

IRR Calculation WITH TIF

	Equity Investment (At Start)	14.4% PV Factor	Valuation (\$10,406,250)
1	\$1,276,601	0.8741343	\$1,115,921
2	\$1,235,438	0.7641108	\$944,012
3	\$1,193,040	0.6679355	\$796,874
4	\$1,149,369	0.5838653	\$671,077
5	\$1,104,389	0.5103767	\$563,655
6	\$1,061,377	0.4461378	\$471,789
7	\$1,018,508	0.3899844	\$395,582
8	\$975,881	0.3408987	\$333,875
9	\$934,336	0.2979913	\$276,820
10	\$893,845	0.2604844	\$234,256
10	(12% Cap on NOI)	0.2604844	(\$6,430,033)
10	Costs of Sale (3.0%)	0.2604844	\$9,373,530
10			(\$281,206)
			(0)
			\$17,187,287

IRR= 14.4%

Project Assumptions (with TIF)

Total Cost of Investment:	181,289,639
Private Equity:	\$10,406,250
Private Debt:	\$31,218,750
Public Subsidy (Bond Financed):	\$ 139,664,639
LTV Ratio:	75%
Loan Rate:	7.00%
Loan Term (Yrs):	20
Sale Price:	
Method:	12.00% Cap. On NOI
	10 Yr. Sale
	35,984,997 Sale Price (\$)
	3.00% sale commission
	(1,079,550) sale commission (\$)
	(20,845,905) loan balance (\$)
	14,059,542 Net Amount Valued (\$)

Project Assumptions (without TIF)

Total Cost of Investment:	\$181,289,639
Private Equity:	\$45,322,410
Private Debt:	\$135,967,229
Public Subsidy (Bond Financed):	\$
LTV Ratio:	75%
Loan Rate:	7.00%
Loan Term (Yrs):	20
Sale Price:	
Method:	12.00% Apprec. On Cost
	10 Yr. Sale
	35,984,997 Sale Price (\$)
	3.00% sale commission
	(1,079,550) sale commission (\$)
	(20,845,905) loan balance (\$)
	14,059,542 Net Amount Valued (\$)

IRR Calculation NO TIF

	Equity Investment (At Start)	0.0% PV Factor	Valuation (\$45,322,410)
1	\$1,276,601	1.0000000	\$1,276,601
2	\$1,235,438	1.0000000	\$1,235,438
3	\$1,193,040	1.0000000	\$1,193,040
4	\$1,149,369	1.0000000	\$1,149,369
5	\$1,104,389	1.0000000	\$1,104,389
6	\$1,061,377	1.0000000	\$1,061,377
7	\$1,018,508	1.0000000	\$1,018,508
8	\$975,881	1.0000000	\$975,881
9	\$934,336	1.0000000	\$934,336
10	(12% Cap on NOI)	1.0000000	(\$6,430,031)
10	Costs of Sale (3.0%)	1.0000000	\$9,373,530
			(\$1,079,550)
			(\$87,673,277)

IRR= No Return

Project Budget

Rentable Square Feet	425,000
Total Project Costs	
Site Budget	41,414,539
Retail Construction	95,625,000
Public Parking	24,250,000
Public Infrastructure	20,000,000
Total \$'s	181,289,539

Pres IRR Analysis

IRR Calculation with TIF

Calculation Start Date:	9.3%	PV Factor	Valuation
Equity Investment (Const. Year 1)	5/1/2004	(6,771,626)	(6,771,626)
Equity Investment (Const. Year 2)	5/1/2005	(9,680,206)	(9,680,206)
1	5/1/2006	414,076	346,516
2	5/1/2007	1,134,904	886,807
3	5/1/2008	1,238,392	865,636
4	5/1/2009	1,284,208	822,500
5	5/1/2010	1,385,111	811,533
6	5/1/2011	1,483,244	784,259
7	5/1/2012	1,543,787	756,738
8	5/1/2013	1,626,741	729,454
9	5/1/2014	1,712,164	702,313
10	5/1/2015	1,800,079	675,492
10% cap at end of year 10	5/1/2015	21,973,150	8,245,447
		18,141,965	0

IRR= 9.3%

IRR Calculation without TIF

Calculation Start Date:	-4.0%	PV Factor	Valuation
Equity Investment (Const. Year 1)	1/1/2004	(6,771,626)	(6,771,626)
Equity Investment (Const. Year 2)	1/1/2005	(9,680,206)	(9,680,206)
1	1/1/2006	(928,854)	(1,008,206)
2	1/1/2007	(208,056)	(235,254)
3	1/1/2008	(1,177,949)	(125,532)
4	1/1/2009	(58,752)	(72,105)
5	1/1/2010	42,151	53,891
6	1/1/2011	120,284	160,210
7	1/1/2012	200,827	278,860
8	1/1/2013	283,780	410,258
9	1/1/2014	368,144	555,951
10	1/1/2015	457,119	717,198
10% cap at end of year 10	1/1/2015	13,262,471	18,101,342
		(5,998,316)	0

IRR= -4.0%

Project Assumptions (with TIF)	
Total Purchase Price:	\$ 2,550,000
Plus Construction	41,547,627
Total Cost of Investment:	44,097,627
Private Debt:	13,165,795
TIF Debt:	14,500,000
Private Equity:	900,000
Tax Credit Equity:	15,531,832
Assumptions For Calculations:	
LV Ratio:	63%
Equity Invested:	
Yr. 1	
Construction Period	
Yrs. 1 & 2	
Proforma Start	
Yr. 3	
Sale Price:	
Cap Rate	9.1%
Yr. 10 NOI	3,019,468
with a 9.1% Cap. Rate*	33,271,716
2% sale commission	(865,434)
Amort after month 120	(10,633,131)
Net Amount Value	21,873,150

Project Assumptions (without TIF)	
Total Purchase Price:	\$ 2,550,000
Plus Construction	41,547,627
Total Cost of Investment:	44,097,627
Private Debt:	27,685,795
TIF Debt:	0
Private Equity:	900,000
Tax Credit Equity:	15,531,832
Assumptions For Calculations:	
LV Ratio:	63%
Equity Invested:	
Yr. 1	
Construction Period	
Yrs. 1 & 2	
Proforma Start	
Yr. 3	
Sale Price:	
Cap Rate	9.1%
Yr. 10 NOI	3,019,468
with a 9.1% Cap. Rate*	33,271,716
2% sale commission	(865,434)
Amort after month 120	(22,343,811)
Net Amount Value	10,262,471

*Capitalization Rate at sale Imputed based upon projected HVS appraised value at completion of \$25,500,000 appreciating at 3% per year thereafter.

1	25,500,000
2	26,265,000
3	27,062,950
4	27,894,539
5	28,700,475
6	29,581,489
7	30,448,334
8	31,361,784
9	32,302,637
10	33,271,716

EXHIBIT 10
BLIGHT STUDY

On File at Tax Increment Finance Commission offices
at 10 Petticoat Lane, Suite 250
Kansas City, MO 64106



1000 Hart Road, Suite 240
Barrington, IL 60010
800.445.9799

December 19, 2003

President Hotel LC
5750 West 95th
Suite 200
Overland Park, Kansas 66207

KCH LC
5750 West 95th
Suite 200
Overland Park, Kansas 66207

***Re: \$24,100,000 Construction and Term Loan to
Kansas City Hilton Hotel
Downtown Kansas City, Missouri***

Gentlemen:

Marshall Investments Corporation ("Marshall") commits to make a loan to President Hotel LC and KCH LC, as borrowers, in accordance with and subject to the terms and conditions of the Application attached hereto, addressed to Marshall ("Application"), the terms and conditions of which are incorporated into and made a part of this Commitment. This Commitment replaces any and all previous commitments from Marshall for the above property.

Notwithstanding anything in the Application to the contrary, the Application Fee is \$785,250, \$30,000 of which has been paid, \$120,500 of which is due and payable with the delivery to Marshall of this Commitment executed by you **not later than the close of business on December 24, 2003**, and \$634,750 of which is due and payable at closing.

Paragraph G 12 of the Application has been satisfied.

By acceptance of this Commitment, you agree that the Application Fee of \$785,250 set forth above is now earned by Marshall.

If you timely accept this Commitment, it shall be effective for 120 days, but in any event not later than April 16, 2004, by which date, if the Loan is not closed in escrow or extended by Marshall in writing, this Commitment shall expire without further notice.

Please indicate your acceptance of this Commitment by executing one counterpart of the same and returning it to us **not later than close of business on December 24, 2003**. If a fully executed copy is not returned by said date and time, this Commitment shall expire without further notice and shall be null and void.

Yours very truly,

MARSHALL INVESTMENTS CORPORATION,
a Minnesota corporation

By: DAC. D.

Its Vice President

Accepted and agreed to this _____
day of _____, 2003.

PRESIDENT HOTEL LC, a Missouri
limited liability company

By: _____
Its: _____

Accepted and agreed to this _____
day of _____, 2003

KCH LC, a Missouri limited liability company

By: _____
Its: _____



Form 10-Q

H&R BLOCK INC - HRB

Filed: December 10, 2003 (period: October 31, 2003)

Quarterly report which provides a continuing view of a company's financial position

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ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.

SIGNATURES

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EX-10.1 (Material contracts)

EX-10.2 (Material contracts)

EX-31.1

EX-31.2

EX-32.1

EX-32.2

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended October 31, 2003

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from _____ to _____

Commission file number 1-6089

H&R BLOCK, INC.

(Exact name of registrant as specified in its charter)

MISSOURI
(State or other jurisdiction of
incorporation or organization)

44-0607856
(I.R.S. Employer
Identification No.)

4400 Main Street
Kansas City, Missouri 64111
(Address of principal executive offices, including zip code)

(816) 753-6900
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

The number of shares outstanding of the registrant's Common Stock, without par value, at the close of business on November 28, 2003 was 178,278,294 shares.

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H&R BLOCK, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
Amounts in thousands, except share amounts

	October 31, 2003	April 30, 2003
	(Unaudited)	
ASSETS		
Cash and cash equivalents	\$ 261,330	\$ 875,353
Cash and cash equivalents — restricted	571,163	438,242
Receivables from customers, brokers, dealers and clearing organizations, net	584,721	517,037
Receivables, net (note 4)	340,794	403,197
Prepaid expenses and other current assets	638,496	513,532
Total current assets	2,396,504	2,747,361
Residual interests in securitizations (note 5)	317,604	264,337
Mortgage servicing rights (note 5)	111,960	99,265
Property and equipment, at cost less accumulated depreciation and amortization of \$523,897 and \$485,608	283,556	288,594
Intangible assets, net (note 6)	350,188	341,865
Goodwill, net (note 6)	830,053	714,215
Other assets	171,511	148,268
Total assets	\$ 4,461,376	\$ 4,603,905
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Current portion of long-term debt	\$ 25,385	\$ 55,678
Notes payable — commercial paper	124,630	—
Accounts payable to customers, brokers and dealers	999,009	862,694
Accounts payable, accrued expenses and other	455,362	468,933
Accrued salaries, wages and payroll taxes	83,202	210,629
Accrued income taxes	130,614	299,262
Total current liabilities	1,818,202	1,897,196
Long-term debt	807,738	822,302
Other noncurrent liabilities	299,539	220,698
Total liabilities	2,925,479	2,940,196
Stockholders' equity:		
Common stock, no par, stated value \$.01 per share	2,179	2,179
Additional paid-in capital	510,951	496,393
Accumulated other comprehensive income (note 8)	62,628	36,862
Retained earnings	2,169,317	2,221,868
Less cost of 40,343,784 and 38,343,944 shares of common stock in treasury	(1,209,178)	(1,093,593)
Total stockholders' equity	1,535,897	1,663,709
Total liabilities and stockholders' equity	\$ 4,461,376	\$ 4,603,905

See Notes to Condensed Consolidated Financial Statements

H&R BLOCK, INC.
CONDENSED CONSOLIDATED INCOME STATEMENTS
 Unaudited, amounts in thousands, except per share amounts

	Three Months Ended		Six Months Ended	
	October 31,		October 31,	
	2003	2002	2003	2002
Revenues:				
Service revenues	\$ 236,800	\$ 206,404	\$ 446,262	\$ 396,973
Gains on sales of mortgage assets	220,289	151,377	412,928	296,385
Interest income	87,868	92,726	158,819	170,946
Product sales	28,164	15,510	56,515	30,922
Royalties	3,416	2,855	4,983	4,056
Other	3,318	2,524	6,038	3,480
	<u>579,855</u>	<u>471,396</u>	<u>1,085,545</u>	<u>902,762</u>
Operating expenses:				
Employee compensation and benefits	255,764	229,295	480,969	439,483
Occupancy and equipment	82,314	71,431	158,465	136,293
Interest	19,900	22,698	43,096	44,972
Depreciation and amortization	40,080	36,495	76,010	72,068
Marketing and advertising	21,683	20,818	31,791	30,004
Supplies, freight and postage	14,187	13,852	22,741	22,318
Impairment of goodwill	—	6,000	—	24,000
Other	129,957	133,495	239,369	213,709
	<u>563,885</u>	<u>534,084</u>	<u>1,052,441</u>	<u>982,847</u>
Operating income (loss)	15,970	(62,688)	33,104	(80,085)
Other income, net	1,164	443	2,859	1,934
	<u>17,134</u>	<u>(62,245)</u>	<u>35,963</u>	<u>(78,151)</u>
Income (loss) before taxes	17,134	(62,245)	35,963	(78,151)
Income taxes (benefit)	6,758	(24,898)	14,068	(31,260)
	<u>10,376</u>	<u>(37,347)</u>	<u>21,895</u>	<u>(46,891)</u>
Net income (loss) before cumulative effect of change in accounting principle	10,376	(37,347)	21,895	(46,891)
Cumulative effect of change in accounting principle for multiple deliverable revenue arrangements, less taxes of \$4,031	—	—	(6,359)	—
Net income (loss)	<u>\$ 10,376</u>	<u>\$ (37,347)</u>	<u>\$ 15,536</u>	<u>\$ (46,891)</u>
Basic earnings (loss) per share:				
Before change in acctg. principle	\$.06	\$ (.21)	\$.12	\$ (.26)
Cumulative effect of change in accounting principle	—	—	(.03)	—
Net income (loss)	<u>\$.06</u>	<u>\$ (.21)</u>	<u>\$.09</u>	<u>\$ (.26)</u>
Diluted earnings (loss) per share:				
Before change in acctg. principle	\$.06	\$ (.21)	\$.12	\$ (.26)
Cumulative effect of change in accounting principle	—	—	(.03)	—
Net income (loss)	<u>\$.06</u>	<u>\$ (.21)</u>	<u>\$.09</u>	<u>\$ (.26)</u>

See Notes to Condensed Consolidated Financial Statements

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H&R BLOCK, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
Unaudited, amounts in thousands

	Six Months Ended	
	October 31,	
	2003	2002
Cash flows from operating activities:		
Net income (loss)	\$ 15,536	\$ (46,891)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	76,010	72,068
Accretion of residual interests in securitizations	(70,906)	(92,853)
Impairments of residual interests in securitizations	11,106	24,132
Additions to trading securities residual interests in securitizations	(199,021)	(136,766)
Proceeds from net interest margin transactions, net	147,107	136,013
Additions to mortgage servicing rights	(48,002)	(37,968)
Amortization of mortgage servicing rights	35,307	20,087
Net change in receivable from Trusts	(54,483)	(19,828)
Cumulative effect of change in accounting principle	6,359	—
Impairment of goodwill	—	24,000
Mortgage loans held for sale:		
Originations and purchases	(11,650,851)	(7,930,567)
Sales and principal repayments	11,634,472	7,848,969
Other net changes in working capital, net of acquisitions	(365,984)	(210,224)
Net cash used in operating activities	(463,350)	(349,828)
Cash flows from investing activities:		
Available-for-sale securities:		
Purchases of available-for-sale securities	(9,557)	(7,692)
Cash received from residual interests in securitizations	68,850	103,885
Sales of other available-for-sale securities	13,721	7,946
Purchases of property and equipment, net	(43,591)	(57,003)
Payments made for business acquisitions, net of cash acquired	(123,337)	(21,397)
Other, net	2,527	(2,813)
Net cash provided by (used in) investing activities	(91,387)	22,926
Cash flows from financing activities:		
Repayments of notes payable	(499,771)	(6,430,067)
Proceeds from issuance of notes payable	624,401	6,911,680
Proceeds from securitization financing	50,100	—
Payments on acquisition debt	(45,100)	(47,995)
Dividends paid	(68,087)	(61,474)
Acquisition of treasury shares	(178,847)	(313,603)
Proceeds from issuance of common stock	59,851	94,667
Other, net	(1,833)	(1,536)
Net cash provided by (used in) financing activities	(59,286)	151,672
Net decrease in cash and cash equivalents	(614,023)	(175,230)
Cash and cash equivalents at beginning of the period	875,353	436,145
Cash and cash equivalents at end of the period	\$ 261,330	\$ 260,915

See Notes to Condensed Consolidated Financial Statements

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Unaudited, dollars in thousands, except per share amounts

1. Basis of Presentation

The condensed consolidated balance sheet as of October 31, 2003, the condensed consolidated income statements for the three and six months ended October 31, 2003 and 2002, and the condensed consolidated statements of cash flows for the six months ended October 31, 2003 and 2002 have been prepared by the Company, without audit. In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position, results of operations and cash flows at October 31, 2003 and for all periods presented have been made.

Financial results for the three months ended July 31, 2003 have been restated as a result of the adoption of Emerging Issues Task Force Issue No. 00-21, "Revenue Arrangements with Multiple Deliverables" (EITF 00-21). See note 13 to the condensed consolidated financial statements for additional information.

Certain reclassifications have been made to prior year amounts to conform to the current year presentation. These reclassifications had no effect on the results of operations or stockholders' equity as previously reported.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted. These condensed consolidated financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's April 30, 2003 Annual Report to Shareholders on Form 10-K.

Operating revenues of the U.S. Tax Operations, Business Services and International Tax Operations segments are seasonal in nature with peak revenues occurring in the months of January through April. Therefore, results for interim periods are not indicative of results to be expected for the full year.

The Company files its Federal and state income tax returns on a calendar year basis. The condensed consolidated income statements reflect the effective tax rates expected to be applicable for the respective full fiscal years.

2. Business Combinations

During the six months ended October 31, 2003, cash payments of \$118,828 were made or accrued related to the acquisition of assets in the franchise territories of ten former major franchisees. See discussion related to litigation involving major franchisees in note 11 to the condensed consolidated financial statements.

Results related to the ten former major franchise territories, from the dates company-owned operations commenced, have been included in the accompanying condensed consolidated financial statements.

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Due to pending litigation, the purchase price allocations have not been finalized. The preliminary allocation of the purchase price to assets acquired is as follows: property and equipment of \$4,168; goodwill of \$83,267; customer relationships of \$21,362 and noncompete agreements of \$10,031. The customer relationships and noncompete agreements will be amortized over ten years and three years, respectively, and the weighted average life of the intangible assets is approximately eight years. Goodwill recognized in these transactions is included in the U.S. Tax Operations segment and all but \$3,304 is deductible for tax purposes. The preliminary purchase price allocations will be adjusted upon determination of the final purchase price.

3. Earnings (Loss) Per Share

Basic earnings (loss) per share is computed using the weighted average shares outstanding during each period. The dilutive effect of potential common shares is included in diluted earnings per share. The computations of basic and diluted earnings (loss) per share are as follows:

(in 000s, except per share amounts)	Three months ended		Six months ended	
	October 31,		October 31,	
	2003	2002	2003	2002
Net income (loss) before change in accounting principle	\$ 10,376	\$ (37,347)	\$ 21,895	\$ (46,891)
Basic weighted average common shares	177,828	178,880	178,616	180,045
Dilutive potential shares from stock options and restricted stock	3,282	—	3,348	—
Convertible preferred stock	1	—	1	—
Dilutive weighted average common shares	181,111	178,880	181,965	180,045
Earnings (loss) per share before change in accounting principle:				
Basic and diluted	\$.06	\$ (.21)	\$.12	\$ (.26)

Diluted earnings per share excludes the impact of shares of common stock issuable upon the exercise of options to purchase 6.5 million shares of stock as of October 31, 2003, as the options' exercise prices were greater than the average market price of the common shares and therefore, the effect would be antidilutive. Diluted loss per share as of October 31, 2002 excludes the impact of 19.0 million shares issuable upon the exercise of stock options and the conversion of 1,216 shares of preferred stock to common stock, as they are antidilutive.

The weighted average shares outstanding for the three and six months ended October 31, 2003 decreased to 177.8 million and 178.6 million, respectively, from 178.9 million and 180.0 million last year, respectively, primarily due to the purchase of treasury shares by the Company. The effect of these purchases was partially offset by the issuance of treasury shares related to the Company's stock-based compensation plans.

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During the six months ended October 31, 2003, the Company issued 2.2 million shares of common stock pursuant to the exercise of stock options, employee stock purchases and awards of restricted shares, in accordance with the Company's stock-based compensation plans. During the six months ended October 31, 2002, the Company issued 3.6 million shares of common stock pursuant to the exercise of stock options, employee stock purchases and awards of restricted shares.

During the six months ended October 31, 2003, the Company acquired 4.2 million shares of its common stock at an aggregate cost of \$178,847. During the six months ended October 31, 2002, the Company acquired 6.5 million shares of its common stock at an aggregate cost of \$313,603.

4. **Receivables**

Receivables consist of the following:

	<u>October 31, 2003</u>	<u>April 30, 2003</u>
Business Services accounts receivable	\$ 154,143	\$ 185,023
Mortgage loans held for sale	100,174	68,518
Loans to franchisees	39,370	33,341
Refund anticipation loans (RALs) and related receivables	17,200	12,871
Software receivables	1,522	36,810
Other	50,886	89,054
	<hr/>	<hr/>
	363,295	425,617
Allowance for doubtful accounts	(12,678)	(17,038)
Lower of cost or market adjustment	(9,823)	(5,382)
	<hr/>	<hr/>
	\$ 340,794	\$ 403,197

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5. Mortgage Banking Activities

Activity related to residual interests in securitizations for the six months ended October 31, 2003 and 2002 and the twelve months ended April 30, 2003 consists of the following:

	Six Months Ended		Year Ended
	October 31, 2003	October 31, 2002	April 30, 2003
Balance, beginning of period	\$ 264,337	\$ 365,371	\$ 365,371
Additions from NIM transactions	1,814	753	753
Additions from secured financing, held as collateral	40,196	—	—
Cash received	(68,850)	(103,885)	(140,795)
Cash received on sales of residual interests	—	—	(142,486)
Accretion	70,906	92,853	145,165
Impairments of fair value	(11,106)	(24,132)	(54,111)
Exercise of call option	(2,603)	—	—
Changes in unrealized holding gains arising during the period, net	22,910	55,796	90,440
Balance, end of period	\$ 317,604	\$ 386,756	\$ 264,337

The Company sold \$11,631,790 and \$7,813,332 of mortgage loans in whole loan sales to third-party trusts (Trusts) during the six months ended October 31, 2003 and 2002, respectively, with gains totaling \$424,034 and \$320,517, respectively, recorded on these sales.

Residual interests valued at \$199,021 and \$136,766 were securitized in net interest margin (NIM) transactions during the respective six-month periods. Net cash proceeds of \$147,107 and \$136,013 were received from the NIM transactions for the six months ended October 31, 2003 and 2002, respectively. Additional cash proceeds of \$50,100 were received as a result of the secured financing, as described below. Total net additions to residual interests from NIM transactions for the six months ended October 31, 2003 and 2002 were \$1,814 and \$753, respectively.

In the second quarter of fiscal year 2004, the Company completed a NIM transaction with a special purpose entity (SPE) that did not qualify as a qualifying special purpose entity (QSPE), and therefore the SPE has been consolidated and the transaction is being accounted for as a secured financing (on-balance sheet securitization). As a result of the on-balance sheet securitization, the condensed consolidated balance sheet includes a residual interest of \$40,196, which is held as collateral for the related financing, and an interest rate cap, which is a derivative instrument. The residual interest is accounted for as a trading security. The interest rate cap of \$9,904 is included in other assets. Additionally, a liability for the principal balance of the bonds issued by the NIM trust of \$50,100 has been included in other noncurrent liabilities on the condensed consolidated balance sheet.

The residual interest and interest rate cap underlying the bonds are owned by the NIM trust and are not available to the Company's creditors. As such, the bondholders have no recourse to the Company for the failure of the underlying mortgage loan borrowers to pay when due. The

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interest rate cap is held for the benefit of the underlying bondholders of the NIM bonds to mitigate risk associated with the residual cash flows.

Cash flows of \$68,850 and \$103,885 were received from the securitization trusts for the six months ended October 31, 2003 and 2002, respectively. Cash received on residual interests is included in investing activities in the condensed consolidated statements of cash flows.

Residual interests are classified as either available-for-sale (AFS) or trading securities and are therefore reported at fair market value (based on discounted cash flow models). Unrealized holding gains represent the write-up of AFS residual interests as a result of actual or estimated lower interest rates, loan losses or loan prepayments than previously projected in the Company's valuation models. Trading securities are marked-to-market through the income statement.

Aggregate net unrealized gains on residual interests, which had not yet been accreted into income, totaled \$120,903 at October 31, 2003 and \$98,089 at April 30, 2003. These unrealized gains are recorded net of deferred taxes in other comprehensive income, and may be recognized in income in future periods either through accretion or upon further securitization or sale of the related residual interest.

In connection with securitization transactions, the Company, as servicer, has a 10% call option, whereby the Company, at its discretion, may repurchase the outstanding loans in the securitization once the current value of the loans is 10% or less of their original value. During the quarter ended July 31, 2003, the Company, as servicer, exercised its 10% call option on a residual interest originally recorded in 1996. The remaining outstanding loans were repurchased from the securitization trust, and the proceeds were used to pay off the remaining bondholders. These repurchased loans may be included in future sale transactions. At the time the call option was exercised, the book value of the residual interest was \$2,603.

Activity related to mortgage servicing rights (MSRs) consists of the following:

	Six Months Ended		Year Ended
	October 31, 2003	October 31, 2002	April 30, 2003
Balance, beginning of period	\$ 99,265	\$ 81,893	\$ 81,893
Additions	48,002	37,968	65,345
Amortization	(35,307)	(20,087)	(47,107)
Impairments of fair value	—	—	(866)
Balance, end of period	\$ 111,960	\$ 99,774	\$ 99,265

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The key assumptions the Company utilized to originally estimate the cash flows and values of residual interests for securitizations during the three months ended October 31, 2003 are as follows:

Estimated annual prepayments	30% to 90%
Estimated credit losses	4.74%
Discount rate — residual interests	13.21% to 18.19%
Variable returns to third-party beneficial interest holders	LIBOR forward curve at NIM closing date

The following table illustrates key assumptions the Company utilizes to estimate the cash flows and values of residual interests and MSR at October 31, 2003:

Estimated annual prepayments	30% to 90%
Estimated credit losses	1.71% to 14.08%
Discount rate — residual interests	12% to 45.30%
Discount rate — MSRs	12.80%

At October 31, 2003, the sensitivities of the current fair value of the residual interests and MSRs to 10% and 20% adverse changes in the above key assumptions are as follows:

	Residential Mortgage Loans		
	Original Residuals	NIM Residuals	Servicing Asset
Carrying amount/fair value of residuals	\$ 26,251	\$ 291,353	\$ 111,960
Weighted average life (in years)	2.1	1.8	1.2
Prepayments (including defaults):			
Adverse 10% — Impact on fair value	\$ 1,236	\$ 2,714	\$ (19,707)
Adverse 20% — Impact on fair value	2,484	8,020	(39,236)
Credit losses:			
Adverse 10% — Impact on fair value	\$ (1,477)	\$ (33,035)	Not applicable
Adverse 20% — Impact on fair value	(2,765)	(62,588)	Not applicable
Discount rate:			
Adverse 10% — Impact on fair value	\$ (777)	\$ (5,142)	\$ (1,865)
Adverse 20% — Impact on fair value	(1,485)	(9,342)	(3,431)
Variable interest rates:			
Adverse 10% — Impact on fair value	\$ 104	\$ (10,540)	Not applicable
Adverse 20% — Impact on fair value	210	(19,943)	Not applicable

These sensitivities are hypothetical and should be used with caution. As the table indicates, changes in fair value based on a 10% variation in assumptions generally cannot be extrapolated because the relationship of the change in assumption to the change in fair value may not be

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linear. Also in this table, the effect of a variation of a particular assumption on the fair value of the retained interest is calculated without changing any other assumptions. It is likely that changes in one factor may result in changes in another, which might magnify or counteract the sensitivities.

6. Intangible Assets and Goodwill

Intangible assets consist of the following:

	October 31, 2003		April 30, 2003	
	Gross		Gross	
	Carrying	Accumulated	Carrying	Accumulated
	Amount	Amortization	Amount	Amortization
U.S. Tax Operations:				
Customer relationships	\$ 21,362	\$ (855)	\$ —	\$ —
Noncompete agreements	10,031	(859)	—	—
Business Services:				
Customer relationships	120,178	(50,421)	120,178	(44,192)
Noncompete agreements	26,909	(7,447)	26,909	(6,157)
Trade name — amortizing	1,450	(277)	1,450	(205)
Trade name — non-amortizing	55,637	(4,868)	55,637	(4,868)
Investment Services:				
Customer relationships	293,000	(114,758)	293,000	(100,108)
Corporate Operations:				
Customer relationships	844	(24)	172	(10)
Noncompete agreements	295	(9)	60	(1)
Total intangible assets	\$ 529,706	\$ (179,518)	\$ 497,406	\$ (155,541)

Amortization of intangible assets for the three and six months ended October 31, 2003 was \$12,861 and \$23,977, respectively. Amortization of intangible assets for the three and six months ended October 31, 2002 was \$10,966 and \$22,285, respectively. Estimated amortization of intangible assets for fiscal years 2004 through 2008 is \$51,384, \$50,556, \$49,559, \$42,988 and \$41,218, respectively.

Changes in the carrying amount of goodwill for the six months ended October 31, 2003, consist of the following:

	April 30, 2003	Additions	Other	October 31, 2003
U.S. Tax Operations	\$ 130,502	\$ 88,892	\$ —	\$ 219,394
Mortgage Operations	152,467	—	—	152,467
Business Services	279,650	25,832	—	305,482
Investment Services	145,732	—	—	145,732
International Tax Operations	5,666	512	591	6,769
Corporate Operations	198	11	—	209
Total goodwill	\$ 714,215	\$ 115,247	\$ 591	\$ 830,053

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Additions to goodwill for U.S. Tax Operations include \$83,267 related to asset acquisitions involving former major franchise businesses and other acquisitions of \$5,625. Additions to goodwill for Business Services primarily result from the last contingent payment related to the acquisition of the non-attest assets of McGladrey & Pullen, LLP of approximately \$25,000.

The Company tests goodwill for impairment annually, or more frequently if events occur which indicate a potential reduction in the fair value of a reporting unit's net assets below its carrying value. During the six months ended October 31, 2002, a goodwill impairment charge of \$24,000 was recorded for the Investment Services segment. No such impairment or events indicating potential impairment have been identified within any of the Company's segments during the six months ended October 31, 2003.

7. Derivative Instruments

The Company, in the normal course of business, enters into commitments with its customers to fund mortgage loans for specified periods of time at "locked-in" interest rates. These financial instruments represent commitments (rate-lock equivalent) to fund loans. The estimated fair value of these rate-lock equivalents is determined based on the difference in the value of the commitments to fund loans between the date of commitment and the date of valuation, taking into consideration the probability of the commitments being exercised and changes in other market conditions. At October 31, 2003 and April 30, 2003, the Company recorded assets totaling \$13,144 and \$12,531, respectively, in prepaid expenses and other current assets on the condensed consolidated balance sheets related to these commitments.

The NIM Trust, in the normal course of business, enters into interest rate caps to mitigate interest rate risk to the underlying bondholders of the NIM bonds. The interest rate cap is owned by the NIM Trust, which is normally not consolidated by the Company. As a result of the secured financing completed in October 2003, an interest rate cap of \$9,904 has been included in other assets on the condensed consolidated balance sheet at October 31, 2003. The interest rate cap will be marked-to-market monthly through the income statement. There are no adjustments to the interest rate cap included in the consolidated income statements for the three and six months ended October 31, 2003.

The Company entered into an agreement with Household Tax Masters, Inc. (Household) during fiscal year 2003, whereby the Company waived its right to purchase any participation interests in and receive license fees relating to RALs during the period January 1 through April 30, 2003. In consideration for waiving these rights, the Company received a series of payments from Household, subject to certain adjustments based on delinquency rates on RALs made by Household through December 31, 2003. The adjustment to the payments will be paid in January 2004. This adjustment is a derivative and will be marked-to-market monthly through December 31, 2003. During the three and six months ended October 31, 2003, the Company recognized \$1,446 and \$5,560, respectively, of revenues related to this instrument. A receivable of \$10,731 and \$5,171 is included on the condensed consolidated balance sheet as of October 31, 2003 and April 30, 2003, respectively.

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8. Comprehensive Income

The Company's comprehensive income is comprised of net income (loss), the change in net unrealized gain on marketable securities and foreign currency translation adjustments. The components of comprehensive income (loss) for the three and six months ended October 31, 2003 and 2002 were:

	Three months ended		Six months ended	
	October 31,		October 31,	
	2003	2002	2003	2002
Net income (loss)	\$ 10,376	\$ (37,347)	\$ 15,536	\$ (46,891)
Change in net unrealized gain on marketable securities	(6,172)	450	14,036	34,200
Change in foreign currency translation adjustments	6,087	1,289	11,730	771
Comprehensive income (loss)	\$ 10,291	\$ (35,608)	\$ 41,302	\$ (11,920)

9. Stock-Based Compensation

Prior to fiscal year 2004, the Company accounted for stock-based compensation plans under the recognition and measurement provisions of APB Opinion No. 25, "Accounting for Stock Issued to Employees" (APB 25) as allowed under Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" (SFAS 123). Effective May 1, 2003, the Company adopted the fair value recognition provisions of SFAS 123, under the prospective transition method as described in Statement of Financial Accounting Standards No. 148, "Accounting for Stock-Based Compensation — Transition and Disclosure" (SFAS 148). Had compensation cost for all stock-based compensation plan grants been determined in accordance with the fair value accounting method prescribed under SFAS 123, the Company's net income (loss) and earnings (loss) per share for the three and six months ended October 31, 2003 and 2002 would have been as follows:

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	Three Months Ended		Six Months Ended	
	October 31,		October 31,	
	2003	2002	2003	2002
Net income (loss) as reported	\$ 10,376	\$ (37,347)	\$ 15,536	\$ (46,891)
Add: Stock-based compensation expense included in reported net income, net of related tax effects	2,005	310	2,797	532
Deduct: Total stock-based compensation expense determined under fair value method for all awards, net of related tax effects	(5,565)	(5,586)	(10,631)	(12,214)
Pro forma net income (loss)	\$ 6,816	\$ (42,623)	\$ 7,702	\$ (58,573)
Basic earnings (loss) per share:				
As reported	\$.06	\$ (.21)	\$.09	\$ (.26)
Pro forma	.04	(.24)	.04	(.33)
Diluted earnings (loss) per share:				
As reported	\$.06	\$ (.21)	\$.09	\$ (.26)
Pro forma	.04	(.24)	.04	(.33)

10. Supplemental Cash Flow Information

During the six months ended October 31, 2003, the Company paid \$170,826 and \$42,724 for income taxes and interest, respectively. During the six months ended October 31, 2002, the Company paid \$124,844 and \$39,927 for income taxes and interest, respectively.

During the six months ended October 31, 2003 and 2002, the Company treated the following as non-cash investing activities:

	Six months ended October 31,	
	2003	2002
Additions to residual interests	\$ 1,814	\$ 753
Residual interest mark-to-market	22,910	55,796
Accrued payment on acquisition debt	25,000	—

11. Commitments, Contingencies, Litigation and Risks

Commitments and Contingencies

The Company offers separately priced guarantees under its Peace of Mind guarantee program to tax clients whereby the Company will assume the cost of additional tax assessments attributable to tax return preparation error. The Company defers the revenue and expenses associated with these guarantees, and recognizes these amounts over the term of the guarantee based upon historical claims data. The related current asset and liability are included in prepaid expenses and other current assets and accounts payable, accrued expenses and other, respectively, on the

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condensed consolidated balance sheets. The related noncurrent asset and liability are included in other assets and other noncurrent liabilities, respectively, on the condensed consolidated balance sheets. During the three months ended October 31, 2003, the Company adopted EITF 00-21 and recorded a cumulative effect of a change in accounting principle as of May 1, 2003. See further discussion in note 13. Changes in the deferred revenue liability for the six months ended October 31, 2003 and 2002 and the twelve months ended April 30, 2003 are as follows:

	Six Months Ended		Year Ended
	October 31,		April 30,
	2003	2002	2003
Balance, beginning of period	\$ 49,280	\$ 44,982	\$ 44,982
Amounts deferred for new guarantees issued	975	193	28,854
Revenue recognized on previous deferrals	(37,558)	(14,131)	(24,556)
Adjustment resulting from change in accounting principle	61,487	—	—
Balance, end of period	\$ 74,184	\$ 31,044	\$ 49,280

Option One Mortgage Corporation provides a guarantee up to a maximum amount equal to approximately 10% of the aggregate principal balance of mortgage loans held by the Trusts (qualifying special purpose entities) before ultimate disposition of the loans by the Trusts. This guarantee would be called upon in the event adequate proceeds were not available from the sale of the mortgage loans to satisfy the current or ultimate payment obligations of the Trusts. No losses have been sustained on this commitment since its inception. The total principal amount of Trust obligations outstanding as of October 31, 2003 and April 30, 2003 was \$3,811,085 and \$2,176,286, respectively. The fair value of mortgage loans held by the Trusts as of October 31, 2003 and April 30, 2003 was approximately \$3,960,000 and \$2,273,000, respectively. At October 31, 2003 and April 30, 2003, a liability, which represents the estimated value of the 10% guarantee, of \$10,256 and \$6,175, respectively, was recorded in accounts payable, accrued expenses and other on the condensed consolidated balance sheets.

The Company manages its interest rate risk by entering into forward loan sale commitments to be settled at a future date. The Company had commitments to sell loans of \$5,310,000 and \$1,470,031 as of October 31, 2003 and April 30, 2003, respectively.

The Company has entered into whole loan sale agreements with investors in the normal course of business, which include standard representations and warranties customary to the mortgage banking industry. Violations of these representations and warranties may require the Company to repurchase loans previously sold. A liability has been established related to the potential loss on repurchase of loans previously sold of \$28,682 and \$18,859 at October 31, 2003 and April 30, 2003, respectively. This liability is included in accounts payable, accrued expenses and other on the condensed consolidated balance sheets. Repurchased loans are normally sold in subsequent sale transactions.

The Company and its subsidiaries have various contingent purchase price obligations in connection with prior acquisitions. In many cases, contingent payments to be made in

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connection with these acquisitions are not subject to a stated limit. The Company estimates the potential payments (undiscounted) total approximately \$8,750 and \$52,290 as of October 31, 2003 and April 30, 2003, respectively. The Company's estimate is based on current financial conditions. Should actual results differ materially from the Company's assumptions, the potential payments will differ from the above estimate. Such payments, if and when paid, would be recorded as additional goodwill.

The Company has contractual commitments to fund certain franchises requesting draws on Franchise Equity Lines of Credit (FELCs). The commitment to fund FELCs as of October 31, 2003 and April 30, 2003 totaled \$60,307 and \$56,070, respectively, with a related receivable balance of \$39,370 and \$33,341, respectively, included on the condensed consolidated balance sheets. The receivable represents the amount drawn on the FELCs as of October 31, 2003 and April 30, 2003.

The Company and its subsidiaries also routinely enter into contracts that include embedded indemnifications that have characteristics similar to guarantees. Other guarantees and indemnifications of the Company and its subsidiaries include obligations to protect counter parties from losses arising from the following: a) tax, legal and other risks related to the purchase or disposition of businesses; b) penalties and interest assessed by Federal and state taxing authorities in connection with tax returns prepared for clients; c) indemnification of the Company's directors and officers; and d) third-party claims relating to various arrangements in the normal course of business. Typically, there is no stated maximum payment related to these indemnifications, and the term of indemnities may vary and in many cases is limited only by the applicable statute of limitations. The likelihood of any claims being asserted against the Company or its subsidiaries and the ultimate liability related to any such claims, if any, is difficult to predict. While management cannot provide assurance the Company and its subsidiaries will ultimately prevail in the event any such claims are asserted, management believes the fair value of these guarantees and indemnifications is not material as of October 31, 2003.

Litigation

In November 2002, the Company and a major franchisee of a subsidiary of the Company, reached an agreement with the plaintiff class in the class action lawsuit entitled *Ronnie and Nancy Haese, et al. v. H&R Block, Inc. et al.*, Case No. CV96-423, in the District Court of Kleberg County, Texas, related to RALs. The settlement provides a five-year package of coupons class members can use to obtain a variety of tax preparation and tax planning services from the Company's subsidiaries. The Company's major franchisee, which operates more than half of all H&R Block offices in Texas, will share a portion of the total settlement cost. As a result, the Company recorded a liability and pretax expense of \$41,672, during the second quarter of fiscal year 2003, which, at the time, represented the Company's best estimate of its share of the settlement cost for plaintiff class legal fees and expenses, tax products and associated mailing expenses. The settlement was approved by the court as a part of a final judgment entered on June 24, 2003. No appeals of the judgment and award were filed. The Company paid the award of \$49,900 of attorneys' fees and expenses to class counsel on August 22, 2003. In addition to the liability that has already been recorded and/or paid, the Company will reduce revenues associated with tax

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preparation services as the coupons are redeemed each year. Distribution of the settlement coupons was made following the end of the second quarter.

The Company has been involved in a number of other putative RAL class action cases since 1990 and has successfully defended many cases. In order to avoid the uncertainty of litigation and the diversion of resources and personnel resulting from the lawsuits, the Company, the lending bank, and the plaintiffs in the case *Joel E. Zawikowski, et al. v. Beneficial National Bank, H&R Block, Inc., et al.* (renamed *Lynne A. Carnegie, et al. v. H&R Block, Inc., et al.*), Case No. 98-C-2178 in the United States District Court for Northern Illinois, had agreed to a settlement class and a settlement of RAL-related claims on a nationwide basis. Under that settlement, the Company and the lending bank agreed to each pay \$12,500 toward a \$25,000 settlement fund for the benefit of the class members. The settlement was approved by the District Court in February 2001 and the defendants paid the \$25,000 into an escrow fund. Certain class members who had objected to the settlement appealed the order approving the settlement to the Seventh Circuit Court of Appeals. In April 2002, the Court of Appeals reversed the District Court's order approving the settlement and remanded the matter back to the District Court for further consideration of the fairness and adequacy of the proposed settlement by a new District Court judge. In April 2003, the District Court judge declined to approve the \$25,000 settlement, finding that counsel for the settlement plaintiffs had been inadequate representatives of the plaintiff class and failed to sustain their burden of showing that the settlement was fair. The judge appointed new counsel for the plaintiffs in the first quarter of fiscal year 2004 and named their client, Lynne A. Carnegie, as lead plaintiff. The new counsel for the plaintiffs have since filed an amended complaint and a motion for partial summary judgment. The defendants have filed a motion to dismiss, a brief in response to allegations in the plaintiffs' amended complaint relating to class certification, and responses to plaintiffs' motion for partial summary judgment. The Company recorded a receivable in the amount of its \$12,500 share of the settlement fund in the fourth quarter of fiscal year 2003 and recorded a reserve in such quarter of \$12,500 consistent with the existing settlement authority of the Board of Directors. The defendants requested the release of the escrowed settlement fund and the \$12,500 was received during the second quarter of fiscal year 2004. The Company intends to defend the case and the remaining RAL class action litigation vigorously and there are no assurances that any of the matters will result in settlements or as to the amount of any settlement.

The Company and certain of its current and former officers and directors are named defendants in litigation entitled *Paul White, et al. v. H&R Block, et al.*, consolidated Case Numbers 02CV8965, 02CV9661, 02CV9682 and 02CV9830 pending in the United States District Court for the Southern District of New York since the third quarter of fiscal year 2003. The respective named plaintiffs seek to represent a class of shareholders who purchased the Company's stock between November 8, 1997 and November 6, 2002, and allege that the defendants violated Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder by failing to disclose to shareholders various cases in which the Company had been sued regarding the RAL program, by failing to set adequate reserves for those cases, and by failing to disclose the supposed implications of those cases for the future of the RAL program. The four securities law cases were all assigned to the same judge and consolidated for pre-trial matters. A consolidated complaint was filed in March 2003 and the defendants responded by filing a motion to dismiss in

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April 2003. In response to defendants' motion to dismiss, the plaintiffs informed defendants that they wished further to amend their complaint. Defendants consented to the filing of an amended complaint as a pleading matter, the plaintiffs filed the amended complaint, and the defendants filed a motion to dismiss it in August 2003. The Company believes the claims in these actions are without merit, and intends to defend them vigorously.

The Company is a named defendant in litigation entitled *William R. Smith, Inc., et al. v. H&R Block, Inc., et al.*, Case No. 99-CV-206379, pending in the Circuit Court of Jackson County, Missouri (previously known as *Armstrong Business Services, Inc., et al. v. H&R Block, Inc., et al.*). The action was filed by "major" franchisees against the Company and certain of its subsidiaries relating to alleged breaches of contract and other matters. The Company's subsidiary, HRB Royalty, Inc., the franchisor under the applicable franchise agreements, filed a counterclaim and subsequently a motion for summary judgment seeking a declaration that HRB Royalty, Inc. could elect not to renew the major franchise agreements when the then current five-year terms came to an end. Such motion for summary judgment was granted in March 2001 and upheld on appeal. HRB Royalty notified the plaintiff major franchisees in 2000 that it did not intend to renew their franchise agreements at the expiration of the then current renewal terms and that the agreements would terminate at those times. The renewal dates varied among the franchisees. Pursuant to the franchise agreements, HRB Royalty must pay a "fair and equitable price" to the franchisee for the franchisee's franchise business, and such price must be no less than 80% of the franchisee's revenues for the most recent 12 months ended April 30, plus the value of equipment and supplies, and certain off-season expenses. The Circuit Court ruled in May 2003 that major franchise agreements with renewal terms scheduled to expire prior to July 1, 2003, will expire on July 1, 2003, and other major franchise agreements will expire as the renewal terms expire commencing in September 2003 and ending in fiscal year 2005. The Court ordered defendants to pay for the franchise businesses as provided in the franchise agreements on the applicable dates of expiration. During the six months ended October 31, 2003, franchise agreements of twelve major franchisees expired and subsidiaries of the Company acquired and began operating tax preparation businesses as company-owned operations in the franchise territories of ten former major franchisees. With respect to the two other franchisees with expired franchise agreements, one franchisee entered into a new franchise agreement with a limited term and one franchisee continued litigation challenging the expiration of the franchise agreement. Cash payments of \$118,828 were made or accrued related to these former major franchises during the six months ended October 31, 2003.

In *Smith*, plaintiffs' claims against the Company and its subsidiaries remain in the trial court. In their second amended petition, the plaintiffs seek in excess of \$20,000 in actual damages, punitive damages, unspecified statutory damages, declaratory, injunctive and other relief, including attorneys' fees under allegations of breach of contract, breach of the covenant of good faith and fair dealing, unfair business practices, state anti-trust violations, breach of fiduciary duty, prima facie tort, violations of various state franchise statutes, fraud and misrepresentation, waiver and estoppel, ambiguity and reformation, relief with respect to a post-termination covenant not to compete in the franchise agreements, and a request for a fair and equitable payment upon nonrenewal of the franchise agreements. The major franchisees allege, among other things, that the sale of TaxCut® income tax return preparation software and online tax

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services and the purchase of accounting firms encroached on their exclusive franchise territories. The defendants believe that the allegations against them are without merit and continue to defend the case vigorously. Management believes that amounts, if any, required to be paid by the Company and its subsidiaries in the discharge of liabilities or settlements relating to these claims of the plaintiffs in this litigation will not have a material adverse effect on the Company's consolidated results of operations, cash flows or financial position.

In August 2003, a subsidiary of the Company entered into a transaction with one of the former major franchisees whose franchise agreements expired in the first quarter, pursuant to which such subsidiary acquired the stock of the franchisee and the franchisee released the Company and its affiliates from any further liability regarding additional payments under the major franchise agreements. With the exceptions of the former franchisee that executed a release and the franchisee that entered into a new franchise agreement, the court will determine if any additional payments are required for these franchise businesses.

The first trial involving one of the plaintiffs in the *Smith* litigation was held in October 2003. At the conclusion of this trial, the jury rendered a verdict and the court entered a judgment requiring the Company to make an additional payment of \$3,197 for the franchise business. As of October 31, 2003, the Company recorded this liability in accounts payable, accrued expenses and other on the condensed consolidated balance sheet. The original payment for the franchise business made in the first quarter of fiscal year 2004 was \$4,955. This trial also involved the issues relating to that plaintiff's claims for damages against the Company. The jury rendered a verdict of \$921 in favor of the plaintiff on the plaintiff's claims against the Company. The outcome of the trial is subject to post-trial motions and possible appeals. The next trial to take place as a part of the *Smith* litigation is scheduled for May 2004.

In addition to the aforementioned cases, the Company and its subsidiaries have from time to time been party to claims and lawsuits arising out of such subsidiaries' business operations, including other claims and lawsuits relating to RALs, and claims and lawsuits concerning the preparation of customers' income tax returns, the electronic filing of income tax returns, the fees charged customers for various services, the Peace of Mind guarantee program associated with income tax return preparation services, relationships with franchisees and contract disputes. Such lawsuits include actions by individual plaintiffs, as well as cases in which plaintiffs seek to represent a class of similarly situated customers. The amounts claimed in these claims and lawsuits are substantial in some instances, and the ultimate liability with respect to such litigation and claims is difficult to predict. The Company's management considers these cases to be ordinary, routine litigation incidental to its business, believes the Company and its subsidiaries have meritorious defenses to each of them and is defending, or intends to defend, them vigorously. While management cannot provide assurance the Company and its subsidiaries will ultimately prevail in each instance, management believes that amounts, if any, required to be paid by the Company and its subsidiaries in the discharge of liabilities or settlements will not have a material adverse effect on the Company's consolidated results of operations, cash flows or financial position. Regardless of outcome, claims and litigation can adversely affect the Company and its subsidiaries due to defense costs, diversion of management and publicity related to such matters.

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It is the Company's policy to accrue for amounts related to legal matters if it is probable that a liability has been incurred and an amount is reasonably estimable. Many of the various legal proceedings are covered in whole, or in part, by insurance.

12. Segment Information

Information concerning the Company's operations by reportable operating segment for the three and six months ended October 31, 2003 and 2002 is as follows:

	Three months ended			Six months ended	
	July 31,	October 31,	October 31,	October 31,	
	2003	2003	2002	2003	2002
Revenues:					
U.S. Tax Operations	\$ 40,522	\$ 47,189	\$ 33,429	\$ 87,711	\$ 56,715
Mortgage Operations	302,895	351,156	274,588	654,051	524,894
Business Services	98,499	109,024	97,883	207,523	193,197
Investment Services	56,987	52,703	50,027	109,690	108,690
International Tax Operations	5,459	19,095	15,326	24,554	19,609
Corporate Operations	1,328	688	143	2,016	(343)
	<u>\$ 505,690</u>	<u>\$ 579,855</u>	<u>\$ 471,396</u>	<u>\$ 1,085,545</u>	<u>\$ 902,762</u>
Income (loss) from:					
U.S. Tax Operations	\$ (93,172)	\$ (130,938)	\$ (152,299)	\$ (224,110)	\$ (246,329)
Mortgage Operations	163,829	184,026	153,520	347,855	300,605
Business Services	(6,679)	(2,732)	(3,785)	(9,411)	(8,058)
Investment Services	(13,757)	(15,336)	(27,936)	(29,093)	(60,733)
International Tax Operations	(6,408)	555	(250)	(5,853)	(6,701)
Corporate Operations	(24,984)	(18,441)	(31,495)	(43,425)	(56,935)
	<u>\$ 18,829</u>	<u>\$ 17,134</u>	<u>\$ (62,245)</u>	<u>\$ 35,963</u>	<u>\$ (78,151)</u>

Results for the quarter ended July 31, 2003 have been restated for the adoption of EITF 00-21.

13. New Accounting Pronouncements

SFAS 149

In April 2003, Statement of Financial Accounting Standards No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities" (SFAS 149) was issued. SFAS 149 amends and clarifies the accounting for derivative instruments and incorporates many of the implementation issues cleared as a result of the Derivatives Implementation Group process. The provisions of this standard are effective for contracts entered into or modified after June 30, 2003. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.

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FIN 46

In January 2003, the Financial Accounting Standards Board (FASB) issued Interpretation No. 46, "Consolidation of Variable Interest Entities" (FIN 46). FIN 46 provides guidance with respect to the consolidation of certain variable interest entities (VIEs) whereby a VIE must be consolidated by its primary beneficiary if the entity does not effectively disperse risks among parties involved. The primary beneficiary is one who absorbs a majority of the expected losses, residual returns, or both as a result of holding variable interests. FIN 46 also requires disclosures for both the primary beneficiary of a VIE and other parties with significant variable interests in the entity.

The provisions of FIN 46 apply immediately to VIEs created after January 31, 2003, and to VIEs in which an enterprise obtains an interest after that date. In October 2003, the FASB issued a staff position delaying the effective date of the consolidation requirements of FIN 46 under certain circumstances to periods ending on or after December 15, 2003 for entities created before February 1, 2003.

The Mortgage Operations segment has an interest in certain QSPEs it currently does not consolidate, which are exempt from the provisions of FIN 46. The Company is continuing its evaluation of interests in potential VIEs, and will continue to monitor additional guidance as provided by the FASB on this standard.

EITF 00-21

In August 2003, the Company adopted EITF 00-21. EITF 00-21 requires consideration received in connection with arrangements involving multiple revenue generating activities be measured and allocated to each separate unit of accounting in the arrangement. Revenue recognition is determined separately for each unit of accounting within the arrangement. EITF 00-21 impacts revenue and expense recognition related to tax preparation in the Company's premium tax offices where Peace of Mind (POM) guarantees are included in the price of a completed tax return. Prior to the adoption of EITF 00-21, revenues and expenses related to POM guarantees at premium offices were recorded in the same period as tax preparation revenues. Beginning May 1, 2003, revenues and direct expenses related to POM guarantees are now initially deferred and recognized over the guarantee period in proportion to POM claims paid. As a result of the adoption of EITF 00-21, the Company recorded a cumulative effect of a change in accounting principle of \$6,359, net of taxes of \$4,031, as of May 1, 2003. The Company's results of operations for the three months ended July 31, 2003 have been restated to reflect the cumulative effect of a change in accounting principle as of May 1, 2003 and to reflect the recognition of deferred revenues and expenses for the three months ended July 31, 2003.

Restated results for the three months ended July 31, 2003 and pro forma results, as if EITF 00-21 had been applied during each period, for the three months ended July 31, 2002 and October 31, 2002 and the six months ended October 31, 2002 are as follows:

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	Three months ended July 31,			
	2003		2002	
	As reported	Restated	As reported	Pro forma
Revenues	\$ 494,843	\$ 505,690	\$ 431,366	\$ 442,757
Income (loss) before taxes	17,297	18,829	(15,906)	(13,514)
Net income (loss) before cumulative effect of change in accounting principle	10,582	11,519	(9,544)	(8,109)
Cumulative effect of change in accounting principle	—	(6,359)	—	—
Net income (loss)	\$ 10,582	\$ 5,160	\$ (9,544)	\$ (8,109)
Basic and diluted earnings (loss) per share	\$.06	\$.03	\$ (.05)	\$ (.04)

	Three months ended		Six months ended	
	October 31, 2002		October 31, 2002	
	As reported	Pro forma	As reported	Pro forma
Revenues	\$ 471,396	\$ 481,003	\$ 902,762	\$ 923,760
Loss before taxes	(62,245)	(60,744)	(78,151)	(74,258)
Net loss	\$ (37,347)	\$ (36,446)	\$ (46,891)	\$ (44,555)
Basic and diluted loss per share	\$ (.21)	\$ (.20)	\$ (.26)	\$ (.25)

Revenues recognized during the three months ended July 31, 2003 and October 31, 2003 and the six months ended October 31, 2003, which were initially recognized in prior periods and reversed as part of the cumulative effect of a change in accounting principle, totaled \$10,847, \$9,578 and \$20,425, respectively.

Exposure Draft — Amendment of SFAS 140

The FASB has decided to reissue its exposure draft, "Qualifying Special Purpose Entities and Isolation of Transferred Assets, an Amendment of FASB Statement No. 140," during the first quarter of calendar year 2004. The purpose of the proposal is to provide more specific guidance on the accounting for transfers of financial assets to a QSPE.

Provisions in the first exposure draft, if adopted, may have required the Company to consolidate its current QSPFs (the Trusts) established in its Mortgage Operations segment. As of October 31, 2003, the Trusts had assets and liabilities of \$3,811,085. The provisions of the exposure draft are subject to FASB due process and are subject to change. The Company will continue to

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monitor the status of the exposure draft, and consider changes to current structures to comply with the proposed rules.

14. Condensed Consolidating Financial Statements

Block Financial Corporation (BFC) is an indirect, wholly owned consolidated subsidiary of the Company. BFC is the Issuer and the Company is the Guarantor of the Senior Notes issued on October 21, 1997 and April 13, 2000. These condensed consolidating financial statements have been prepared using the equity method of accounting. Earnings of subsidiaries are, therefore, reflected in the Company's investment in subsidiaries account. The elimination entries eliminate investments in subsidiaries, related stockholder's equity and other intercompany balances and transactions.

Condensed Consolidating Income Statements

	Three months ended October 31, 2003				
	H&R Block, Inc. (Guarantor)	BFC (Issuer)	Other Subsidiaries	Elims	Consolidated H&R Block
Total revenues	\$ —	\$ 407,279	\$ 172,638	\$ (62)	\$ 579,855
Expenses:					
Compensation & benefits	—	114,390	141,352	22	255,764
Occupancy & equipment	—	19,810	62,504	—	82,314
Interest	—	11,612	8,288	—	19,900
Depreciation & amortization	—	18,391	21,689	—	40,080
Marketing & advertising	—	9,831	12,016	(164)	21,683
Supplies, freight & postage	—	3,684	10,503	—	14,187
Other	—	90,981	39,060	(84)	129,957
	—	268,699	295,412	(226)	563,885
Operating income (loss)	—	138,580	(122,774)	164	15,970
Other income, net	17,134	—	1,164	(17,134)	1,164
Income (loss) before taxes (benefit)	17,134	138,580	(121,610)	(16,970)	17,134
Income taxes (benefit)	6,758	56,410	(49,716)	(6,694)	6,758
Net income (loss)	\$ 10,376	\$ 82,170	\$ (71,894)	\$ (10,276)	\$ 10,376

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Three months ended October 31, 2002

	H&R Block, Inc. (Guarantor)	BFC (Issuer)	Other Subsidiaries	Elims	Consolidated H&R Block
Total revenues	\$ —	\$ 326,054	\$ 145,384	\$ (42)	\$ 471,396
Expenses:					
Compensation & benefits	—	98,007	131,197	91	229,295
Occupancy & equipment	—	17,256	54,175	—	71,431
Interest	—	16,004	6,694	—	22,698
Depreciation & amortization	—	19,066	17,429	—	36,495
Marketing & advertising	—	8,039	12,934	(155)	20,818
Supplies, freight & postage	—	4,660	9,192	—	13,852
Impairment of goodwill	—	6,000	—	—	6,000
Other	—	55,437	78,190	(132)	133,495
	—	224,469	309,811	(196)	534,084
Operating income (loss)	—	101,585	(164,427)	154	(62,688)
Other income, net	(62,245)	—	443	62,245	443
Income (loss) before taxes (benefit)	(62,245)	101,585	(163,984)	62,399	(62,245)
Income taxes (benefit)	(24,898)	32,099	(57,060)	24,961	(24,898)
Net income (loss)	\$ (37,347)	\$ 69,486	\$ (106,924)	\$ 37,438	\$ (37,347)

Six months ended October 31, 2003

	H&R Block, Inc. (Guarantor)	BFC (Issuer)	Other Subsidiaries	Elims	Consolidated H&R Block
Total revenues	\$ —	\$ 772,610	\$ 313,039	\$ (104)	\$ 1,085,545
Expenses:					
Compensation & benefits	—	218,079	262,824	66	480,969
Occupancy & equipment	—	38,797	119,668	—	158,465
Interest	—	24,463	18,633	—	43,096
Depreciation & amortization	—	36,092	39,918	—	76,010
Marketing & advertising	—	16,441	15,679	(329)	31,791
Supplies, freight & postage	—	8,101	14,640	—	22,741
Other	—	161,885	77,654	(170)	239,369
	—	503,858	549,016	(433)	1,052,441
Operating income (loss)	—	268,752	(235,977)	329	33,104
Other income, net	35,963	—	2,859	(35,963)	2,859
Income (loss) before taxes (benefit)	35,963	268,752	(233,118)	(35,634)	35,963
Income taxes (benefit)	14,068	109,551	(95,612)	(13,939)	14,068
Net income (loss) before change in accounting	21,895	159,201	(137,506)	(21,695)	21,895
Cumulative effect of change in accounting	(6,359)	—	(6,359)	6,359	(6,359)
Net income (loss)	\$ 15,536	\$ 159,201	\$ (143,865)	\$ (15,336)	\$ 15,536

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Six months ended October 31, 2002

	H&R Block, Inc. (Guarantor)	BFC (Issuer)	Other Subsidiaries	Elims	Consolidated H&R Block
Total revenues	\$ —	\$ 636,957	\$ 265,950	\$ (145)	\$ 902,762
Expenses:					
Compensation & benefits	—	189,392	249,768	323	439,483
Occupancy & equipment	—	31,419	104,874	—	136,293
Interest	—	33,730	11,242	—	44,972
Depreciation & amortization	—	37,537	34,531	—	72,068
Marketing & advertising	—	12,562	17,751	(309)	30,004
Supplies, freight & postage	—	8,557	13,761	—	22,318
Goodwill impairment	—	24,000	—	—	24,000
Other	—	109,160	105,017	(468)	213,709
	—	446,357	536,944	(454)	982,847
Operating income (loss)	—	190,600	(270,994)	309	(80,085)
Other income, net	(78,151)	—	1,934	78,151	1,934
Income (loss) before taxes (benefit)	(78,151)	190,600	(269,060)	78,460	(78,151)
Income taxes (benefit)	(31,260)	76,364	(107,748)	31,384	(31,260)
Net income (loss)	\$ (46,891)	\$ 114,236	\$ (161,312)	\$ 47,076	\$ (46,891)

Condensed Consolidating Balance Sheets

October 31, 2003

	H&R Block, Inc. (Guarantor)	BFC (Issuer)	Other Subsidiaries	Elims	Consolidated H&R Block
Cash & cash equivalents	\$ —	\$ 158,659	\$ 102,671	\$ —	\$ 261,330
Cash & cash equivalents - restricted	—	559,715	11,448	—	571,163
Receivables from customers, brokers and dealers, net	—	584,721	—	—	584,721
Receivables, net	2,393	173,556	164,845	—	340,794
Intangible assets and goodwill, net	—	476,441	703,800	—	1,180,241
Investments in subsidiaries	3,593,778	215	797	(3,593,778)	1,012
Other assets	(240)	1,156,433	365,205	717	1,522,115
Total assets	\$ 3,595,931	\$ 3,109,740	\$ 1,348,766	\$ (3,593,061)	\$ 4,461,376
Notes payable	\$ —	\$ 124,630	\$ —	\$ —	\$ 124,630
Accts. payable to customers, brokers and dealers	—	999,009	—	—	999,009
Long-term debt	—	747,875	59,863	—	807,738
Other liabilities	2	413,318	580,782	—	994,102
Net intercompany advances	2,060,032	(215,954)	(1,844,465)	387	—
Stockholders' equity	1,535,897	1,040,862	2,552,586	(3,593,448)	1,535,897
Total liabilities and stockholders' equity	\$ 3,595,931	\$ 3,109,740	\$ 1,348,766	\$ (3,593,061)	\$ 4,461,376

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April 30, 2003

	H&R Block, Inc. (Guarantor)	DFC (Issuer)	Other Subsidiaries	Elims	Consolidated H&R Block
Cash & cash equivalents	\$ —	\$ 180,181	\$ 695,172	\$ —	\$ 875,353
Cash & cash equivalents - restricted	—	420,787	17,455	—	438,242
Receivables from customers, brokers and dealers, net	—	517,037	—	—	517,037
Receivables, net	168	171,612	231,417	—	403,197
Intangible assets and goodwill, net	—	491,091	564,989	—	1,056,080
Investments in subsidiaries	3,546,734	215	1,105	(3,546,734)	1,320
Other assets	(1,321)	1,019,118	293,930	949	1,312,676
Total assets	\$ 3,545,581	\$ 2,800,041	\$ 1,804,068	\$ (3,545,785)	\$ 4,603,905
Accts. payable to customers, brokers and dealers	\$ —	\$ 862,694	\$ —	\$ —	\$ 862,694
Long-term debt	—	747,550	74,752	—	822,302
Other liabilities	2,654	360,125	892,457	(36)	1,255,200
Net intercompany advances	1,879,218	(37,776)	(1,841,943)	501	—
Stockholders' equity	1,663,709	867,418	2,678,802	(3,546,250)	1,663,709
Total liabilities and stockholders' equity	\$ 3,545,581	\$ 2,800,041	\$ 1,804,068	\$ (3,545,785)	\$ 4,603,905

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Six months ended October 31, 2003

	H&R Block, Inc. (Guarantor)	BFC (Issuer)	Other Subsidiaries	Elims	Consolidated H&R Block
Net cash provided by (used in) operating activities:	\$ 6,269	\$ (93,412)	\$ (376,207)	\$ —	\$ (463,350)
Cash flows from investing:					
Purchase of AFS securities	—	—	(9,557)	—	(9,557)
Cash received on residuals	—	68,850	—	—	68,850
Sales of AFS securities	—	10,827	2,894	—	13,721
Purchase property & equipment	—	(10,212)	(33,379)	—	(43,591)
Payments for business acq	—	—	(123,337)	—	(123,337)
Net intercompany advances	180,814	—	—	(180,814)	—
Other, net	—	5,873	(3,346)	—	2,527
Net cash provided by (used in) investing activities	180,814	75,338	(166,725)	(180,814)	(91,387)
Cash flows from financing:					
Repayments of notes payable	—	(499,771)	—	—	(499,771)
Proceeds from notes payable	—	624,401	—	—	624,401
Proceeds from securitization financing	—	50,100	—	—	50,100
Payments on acquisition debt	—	—	(45,100)	—	(45,100)
Dividends paid	(68,087)	—	—	—	(68,087)
Acquisition of treasury shares	(178,847)	—	—	—	(178,847)
Proceeds from issuance of common stock	59,851	—	—	—	59,851
Net intercompany advances	—	(178,178)	(2,636)	180,814	—
Other, net	—	—	(1,833)	—	(1,833)
Net cash provided by (used in) financing activities	(187,083)	(3,448)	(49,569)	180,814	(59,286)
Net decrease in cash	—	(21,522)	(592,501)	—	(614,023)
Cash — beginning of period	—	180,181	695,172	—	875,353
Cash — end of period	\$ —	\$ 158,659	\$ 102,671	\$ —	\$ 261,330

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Six months ended October 31, 2002

	H&R Block, Inc. (Guarantor)	BFC (Issuer)	Other Subsidiaries	Elims	Consolidated H&R Block
Net cash provided by (used in) operating activities	\$ 19,163	\$ (1,181)	\$ (367,810)	\$ —	\$ (349,828)
Cash flows from investing:					
Purchase of AFS securities	—	—	(7,692)	—	(7,692)
Cash received on residuals	—	103,885	—	—	103,885
Sales of AFS securities	—	—	7,946	—	7,946
Purchase property & equipment	—	(7,486)	(49,517)	—	(57,003)
Payments for business acq	—	—	(21,397)	—	(21,397)
Net intercompany advances	261,247	—	—	(261,247)	—
Other, net	—	(556)	(2,257)	—	(2,813)
Net cash provided by (used in) investing activities	261,247	95,843	(72,917)	(261,247)	22,926
Cash flows from financing:					
Repayments of notes payable	—	(6,430,067)	—	—	(6,430,067)
Proceeds from notes payable	—	6,911,680	—	—	6,911,680
Payments on acquisition debt	—	—	(47,995)	—	(47,995)
Dividends paid	(61,474)	—	—	—	(61,474)
Acquisition of treasury shares	(313,603)	—	—	—	(313,603)
Proceeds from issuance of common stock	94,667	—	—	—	94,667
Net intercompany advances	—	(670,362)	409,115	261,247	—
Other, net	—	—	(1,536)	—	(1,536)
Net cash provided by (used in) financing activities	(280,410)	(188,749)	359,584	261,247	151,672
Net decrease in cash	—	(94,087)	(81,143)	—	(175,230)
Cash — beginning of period	—	197,959	238,186	—	436,145
Cash — end of period	\$ —	\$ 103,872	\$ 157,043	\$ —	\$ 260,915

15. Subsequent Event

On November 25, 2003, the Company declared a cash dividend of \$.20 per share to shareholders of record as of December 12, 2003, payable on January 2, 2004.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

RESULTS OF OPERATIONS

H&R Block, Inc. (the Company) is a diversified company with subsidiaries primarily engaged in the business of providing financial services including tax services, investment and mortgage products and services, and accounting and consulting services. For nearly 50 years, the Company has been developing relationships with millions of tax clients and its strategy is to expand on these relationships.

H&R Block's Mission:

*To help our clients achieve their financial objectives
by serving as their tax and financial partner.*

H&R Block's Vision:

*To be the world's leading provider of financial services
through tax and accounting-based advisory relationships.*

Key to achieving the Company's mission and vision is enhancing client experiences through consistent delivery of valuable services and advice. The Company believes offering advice facilitates a financial partnership and increases client satisfaction and retention. New products and services are continually introduced to bring additional value to the overall experience and allow clients to reach their financial objectives. Operating in multiple lines of business allows the Company to serve the changing financial needs of all its customers. The Company carries out its mission and vision through the following reportable operating segments:

U.S. Tax Operations: This segment primarily consists of the Company's income tax preparation businesses. Retail tax offices served 16.5 million taxpayers in fiscal year 2003 — more than any other personal tax services company. This segment also served 2.1 million clients through TaxCut tax preparation software (includes only federal e-filings) and online tax preparation in fiscal year 2003. By offering professional and do-it-yourself tax preparation options, the Company can serve its clients how they choose to be served.

Mortgage Operations: This segment is primarily engaged in the origination of non-prime mortgage loans, the sale and securitization of mortgage assets (which includes mortgage loans and residual interests), and the servicing of non-prime loans. A key focus of Mortgage Operations is to optimize cash flows from its operations. The Company believes offering mortgage products to other segments' clients results in added value to the total client experience.

Business Services: This segment is engaged in providing accounting, tax, consulting, payroll, employee benefits and capital markets services to business clients and tax, financial and estate planning, wealth management and insurance services to individuals. The Company continues to focus on establishing core service relationships with middle-market clients by adding non-traditional business and personal services to enhance these client relationships. In doing so, the

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Company intends to develop Business Services as a leading provider of middle-market professional services.

Investment Services: This segment is primarily engaged in offering investment services and securities products. Investment Services also offers these services and products to U.S. Tax and Mortgage Operations clients, bringing additional value to the overall client experience.

International Tax Operations: This segment is primarily engaged in providing local tax return preparation, filing and related services in Canada, Australia and the United Kingdom. In addition, International Tax Operations includes Overseas operations, which consists of company-owned and franchise offices preparing tax returns for U.S. citizens living abroad.

The analysis that follows should be read in conjunction with the tables below and the condensed consolidated income statements found on page 2.

Consolidated H&R Block, Inc.

Consolidated H&R Block, Inc. — Three-Month Results

(in 000s, except per share amounts)

	Three months ended		
	October 31, 2003	October 31, 2002	July 31, 2003
Revenues	\$ 579,855	\$ 471,396	\$ 505,690
Pretax income (loss)	17,134	(62,245)	18,829
Net income (loss) before change in accounting principle	10,376	(37,347)	11,519
Cumulative effect of change in accounting principle	—	—	(6,359)
Net income (loss)	\$ 10,376	\$ (37,347)	\$ 5,160
Basic earnings (loss) per share:			
Before change in accounting principle	\$.06	\$ (.21)	\$.06
Net income (loss)	\$.06	\$ (.21)	\$.03
Diluted earnings (loss) per share:			
Before change in accounting principle	\$.06	\$ (.21)	\$.06
Net income (loss)	\$.06	\$ (.21)	\$.03

Results for the quarter ended July 31, 2003 have been restated for the adoption of Emerging Issues Task Force Issue No. 00-21, "Revenue Arrangements with Multiple Deliverables" (EITF 00-21).

Overview

A summary of the Company's results for the three months ended October 31, 2003 is as follows:

- Net income was \$10.4 million, compared to a net loss of \$37.3 million in the prior year.

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- Revenues grew \$108.5 million, or 23.0%, over the prior year.
- U.S. Tax Operations' revenues increased \$13.8 million, or 41.2%, primarily due to increased Peace of Mind revenues related to the adoption of EITF 00-21, while expenses decreased 4.1%, primarily as a result of a litigation reserve recorded in the prior year.
- Mortgage Operations' revenues and pretax earnings increased \$76.6 million and \$30.5 million, respectively, over the prior year and \$48.3 million and \$20.2 million, respectively, over the preceding quarter.
- Mortgage originations totaled \$6.3 billion, an increase of 63.5% over the prior year and 19.4% over the preceding quarter. Execution pricing on sales of mortgage assets declined to 3.87% from 4.78% in the prior year and 4.42% in the preceding quarter.
- Investment Services' pretax results improved 45.1% due primarily to a \$6.0 million goodwill impairment charge recorded in the prior year.

Consolidated H&R Block, Inc. — Six-Month Results

(in 000s, except per share amounts)

	Six months ended	
	October 31, 2003	October 31, 2002
Revenues	\$ 1,085,545	\$ 902,762
Pretax income (loss)	35,963	(78,151)
Net income (loss) before change in accounting principle	21,895	(46,891)
Cumulative effect of change in accounting principle	(6,359)	—
Net income (loss)	\$ 15,536	\$ (46,891)
Basic earnings (loss) per share:		
Before change in accounting principle	\$.12	\$ (.26)
Net income (loss)	\$.09	\$ (.26)
Diluted earnings (loss) per share:		
Before change in accounting principle	\$.12	\$ (.26)
Net income (loss)	\$.09	\$ (.26)

Overview

A summary of the Company's results for the six months ended October 31, 2003 is as follows:

- Net income was \$15.5 million, compared to a net loss of \$46.9 million in the prior year.
- Revenues grew \$182.8 million, or 20.2%, over the prior year.
- U.S. Tax Operations' revenues increased \$31.0 million, or 54.7%, primarily due to increased Peace of Mind revenues related to the adoption of EITF 00-21.
- Mortgage Operations' revenues and pretax earnings increased \$129.2 million and \$47.3 million, respectively, over the prior year.
- Mortgage originations totaled \$11.7 billion, an increase of 60.7% over the prior year.
- Investment Services' pretax results improved 52.1% due primarily to a \$24.0 million goodwill impairment charge recorded in the prior year.

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U.S. Tax Operations

This segment is primarily engaged in providing tax return preparation, filing and related services in the United States. Segment revenues include fees earned for tax-related services performed at company-owned tax offices, royalties from franchise offices, sales of tax preparation and other software, fees from online tax preparation, and payments related to refund anticipation loan (RAL) participations.

TaxCut from H&R Block enables do-it-yourself users to prepare their federal and state tax returns easily and accurately. Several versions of the software are available to suit the needs of individual users, including TaxCut Standard, TaxCut Deluxe (includes free state and electronic filing), TaxCut Platinum for more complex returns and TaxCut Home & Business for small business owners. Other personal productivity software packages are also offered, including H&R Block Deduction Pro, WillPower and Home & Business Attorney.

Clients also have the option of online do-it-yourself tax preparation, online professional tax review, online tax advice and online tax preparation through a tax professional (whereby the client completes an online tax organizer and sends it to a tax professional for preparation) through the *hrblock.com* website. The Company participates in the Free File Alliance, formed in fiscal year 2003. This alliance was created by the industry and the Internal Revenue Service (IRS), and allows qualified lower-income filers to prepare and file their federal return online at no charge.

During the six months ended October 31, 2003, subsidiaries of the Company began operating income tax return preparation businesses in the franchise territories previously operated by ten of its former major franchisees. As a result of these operations, the company expects to have 476 more company-owned and 238 more regular franchise offices for the upcoming tax season. The final purchase prices are pending litigation or settlement. Preliminary purchase price allocations have been made and will be adjusted upon determination of the final purchase price. The results for the three and six months ended October 31, 2003 include compensation, occupancy, legal, amortization and other expenses related to the commencement of company-owned operations in the former franchise territories totaling \$12.8 million and \$13.2 million, respectively.

Financial results for the three months ended July 31, 2003 have been restated as a result of the adoption of Emerging Issues Task Force Issue No. 00-21, "Revenue Arrangements with Multiple Deliverables" (EITF 00-21), as it relates to the Peace of Mind (POM) guarantee program. See note 13 to the condensed consolidated financial statements for additional information.

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U.S. Tax Operations — Three-Month Results

(in 000s)

	Three months ended		
	October 31, 2003	October 31, 2002	July 31, 2003
Tax preparation and related fees	\$ 12,792	\$ 13,370	\$ 11,839
Royalties	1,651	1,402	1,036
RAL waiver fees	1,446	—	4,114
Software sales	933	560	260
Online tax services	430	242	556
Peace of Mind revenue	17,658	6,775	19,909
Other	12,279	11,080	2,808
Total revenues	47,189	33,429	40,522
Compensation and benefits	35,927	36,677	27,340
Occupancy and equipment	44,286	37,241	40,280
Depreciation and amortization	10,781	6,387	7,842
Cost of software sales	723	295	251
Supplies, freight and postage	3,947	4,204	1,183
Legal	11,101	45,947	3,782
Other	27,050	16,373	20,382
Allocated corporate and shared costs:			
Information technology	22,908	18,524	19,655
Marketing	5,634	6,732	2,749
Finance	4,708	4,760	3,555
Supply	4,886	3,284	2,084
Other	6,176	5,304	4,591
Total expenses	178,127	185,728	133,694
Pretax loss	\$ (130,938)	\$ (152,299)	\$ (93,172)

Three months ended October 31, 2003 compared to October 31, 2002

U.S. Tax Operations' revenues increased \$13.8 million, or 41.2%, for the three months ended October 31, 2003, compared to the three months ended October 31, 2002.

Tax preparation and related fees decreased \$0.6 million, or 4.3%, for the three months ended October 31, 2003. This decrease is primarily due to a 2.6% decrease in the average charge, net of discounts, offset by a 7.3% increase in tax returns prepared. The net average charge decreased to \$185.47 in the current quarter compared to \$190.37 last year. Average charge is calculated as tax preparation and filing fees, less discounts if applicable, divided by the number of clients served. Tax returns prepared in company-owned offices during the current quarter were 75 thousand, compared to 70 thousand in the prior year.

During fiscal year 2003, the Company entered into an agreement with Household Tax Masters, Inc. (Household), whereby the Company waived its right to purchase any participation interests in and receive license fees for RALs during the period January 1 through April 30, 2003. In consideration for waiving these rights the Company received a series of payments from Household in fiscal year 2003, subject to certain adjustments in fiscal year 2004 based on delinquency rates. During the three months ended October 31, 2003 the Company recorded

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additional revenues of \$1.4 million based on projected delinquency rates through December 31, 2003. The waiver agreement with Household was a one-year agreement. The final payment is expected to be received in January 2004, based on actual delinquency rates as of December 31, 2003. The Company intends to participate in RALs during the upcoming tax season.

POM revenues for the three months ended October 31, 2003 increased \$10.9 million, or 160.6%, due to the adoption of EITF 00-21. Prior to the adoption of EITF 00-21, revenues related to POM guarantees in premium offices were recorded within tax preparation revenues. With the adoption of EITF 00-21, the revenues are deferred and recognized over the guarantee period. The increase over the prior year is a result of the amortization of larger deferred revenue balances established as part of the cumulative effect of a change in accounting principle.

Total expenses for the three months ended October 31, 2003 were \$178.1 million, down \$7.6 million, or 4.1%, from the prior year. The decrease from the prior year is a result of a litigation settlement recorded in the prior year and effective off-season cost controls. These decreases were partially offset by additional costs from the commencement of company-owned operations in former major franchise territories. Legal expenses declined \$34.8 million, or 75.8%, primarily due to the Texas RAL litigation reserve of \$41.7 million recorded in the previous year, partially offset by legal costs incurred related to other open litigation. Occupancy and equipment costs increased \$7.0 million over the prior year, due to increases of 215 in company-owned offices under lease and offices related to the former major franchise territories. Depreciation and amortization expenses increased in conjunction with additional equipment purchased for new office locations opened during the period. Amortization of intangible assets increased \$1.7 million due to the acquisition of assets from former major franchisees. Other expenses in the current quarter increased \$10.7 million over last year. The increase was primarily due to \$5.6 million of additional POM expenses related to the adoption of EITF 00-21. Additionally, travel and consulting expenses increased by \$1.6 million and \$1.2 million, respectively. Information technology expenses increased \$4.4 million, or 23.7%, for the quarter ended October 31, 2003, primarily due to additional technology projects.

The pretax loss of \$130.9 million for the three months ended October 31, 2003, represents a 14.0% improvement over the prior year loss of \$152.3 million.

Due to the seasonal nature of this segment's business, operating results for the three months ended October 31, 2003 are not comparable to the three months ended July 31, 2003 and are not indicative of the expected results for the entire fiscal year.

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U.S. Tax Operations — Six-Month Results

(in 000s)

	Six months ended	
	October 31, 2003	October 31, 2002
Tax preparation and related fees	\$ 24,631	\$ 24,378
Royalties	2,687	2,318
RAL waiver fees	5,560	—
Software sales	1,193	1,431
Online tax services	986	519
Peace of Mind revenue	37,567	14,326
Other	15,087	13,743
Total revenues	87,711	56,715
Compensation and benefits	63,267	63,211
Occupancy and equipment	84,566	74,431
Depreciation and amortization	18,623	12,525
Cost of software sales	974	569
Supplies, freight and postage	5,130	5,752
Legal	14,883	48,305
Other	47,432	26,897
Allocated corporate and shared costs:		
Information technology	42,563	34,226
Marketing	8,383	11,801
Finance	8,263	8,968
Supply	6,970	5,585
Other	10,767	10,774
Total expenses	311,821	303,044
Pretax loss	\$ (224,110)	\$ (246,329)

Six months ended October 31, 2003 compared to October 31, 2002

U.S. Tax Operations' revenues increased \$31.0 million, or 54.7%, for the six months ended October 31, 2003, compared to the six months ended October 31, 2002.

Tax preparation and related fees increased slightly for the six months ended October 31, 2003, as a result of a 2.2% increase in the average charge, net of discounts, and a 1.7% increase in tax returns prepared. The net average charge increased to \$171.36 in the current period compared to \$167.68 last year. Tax returns prepared in company-owned offices during the current period were 162 thousand, compared to 159 thousand in the prior year.

During the six months ended October 31, 2003 the Company recorded revenues of \$5.6 million in conjunction with the RAL waiver agreement with Household based on projected delinquency rates through December 31, 2003.

POM revenues for the six months ended October 31, 2003 increased \$23.2 million, or 162.2%, principally due to the adoption of EITF 00-21.

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Total expenses for the six months ended October 31, 2003 were \$311.8 million, up \$8.8 million, or 2.9%, from the prior year. The increase over the prior year is primarily a result of the costs of additional offices and the commencement of company-owned operations in former major franchise territories. These increased costs were offset by lower legal expenses as a result of a prior year litigation settlement, and effective off-season cost controls. Occupancy and equipment costs increased \$10.1 million due to increases of 215 in company-owned offices under lease and offices related to the former major franchise territories. Depreciation and amortization expenses increased in conjunction with additional equipment purchased for new office locations opened during the period. Amortization of intangible assets increased \$1.7 million due to the acquisition of assets from former major franchisees. Other expenses in the current period increased \$20.5 million over last year. The increase was primarily due to \$11.8 million of additional POM expenses related to the adoption of RITF 00-21, and \$4.2 million of additional interest accretion related to a legal settlement. Additionally, consultant fees and travel expenses increased \$3.0 million and \$1.4 million, respectively. Information technology expenses increased \$8.3 million, or 24.4%, for the six months ended October 31, 2003, primarily due to additional technology projects. Offsetting these increases, legal expenses declined \$33.4 million, or 69.2%, primarily due to the Texas RAI litigation reserve of \$41.7 million recorded in the previous year, partially offset by legal costs incurred related to other open litigation.

The pretax loss of \$224.1 million for the six months ended October 31, 2003, represents a 9.0% improvement over the prior year loss of \$246.3 million.

Mortgage Operations

This segment is primarily engaged in the origination of non-prime mortgage loans, sales and securitizations of mortgage assets and servicing of non-prime loans. Revenues consist of proceeds from sales and securitizations of loans and related assets, accretion on residual interests, loan servicing fees and interest received on loans.

Substantially all non-prime mortgage loans originated are sold daily to qualifying special purpose entities (Trusts). The Company removes the mortgage loans from its balance sheet and records the gain on the sale, cash and a receivable which represents the ultimate expected outcome from the disposition of the loans by the Trusts. The Trusts, as directed by the third-party beneficial interest holders, either sell the loans directly to third-party investors or back to the Company's securitization entity to pool the loans for securitization, depending on market conditions.

In a securitization transaction, the Trusts transfer the loans to a special purpose entity, which is a consolidated subsidiary of the Company, and the Company simultaneously transfers the loans and its receivable, and the right to receive all payments on the loans, to a securitization trust. The securitization trust meets the definition of a qualifying special purpose entity (QSPE) and is therefore not consolidated by the Company. The securitization trust issues bonds, which are supported by cash flows from the pooled loans, to third-party investors. The Company retains an interest in the loans in the form of a residual interest (including overcollateralization (OC) accounts and uncertificated interests) and usually assumes first risk of loss for credit losses in the loan pool. As the cash flows of the underlying loans and market conditions change, the value of

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the Company's residual interests may also change, resulting in either additional unrealized gains or impairment of the residual interests.

To accelerate cash flows from its residual interests, the Company securitizes the majority of its residual interests in net interest margin (NIM) transactions. In a NIM transaction, residual interests are normally transferred to another QSPE (NIM trust), which then issues bonds to third-party investors. In the second quarter of fiscal year 2004, the Company completed a NIM transaction with a special purpose entity (SPE) that did not qualify as a QSPE and, therefore the SPE has been consolidated and the transaction was accounted for as a secured financing (on-balance sheet securitization).

Proceeds from the bonds are returned to the Company as payment for the residual interests. The bonds are secured by pooled residual interests and are obligations of the NIM trust. The Company retains a subordinated interest in the NIM trust, and receives cash flows on its residual interest generally after the bonds issued to the third-party investors are paid in full. Residual interests retained from NIM securitizations may also be bundled and sold in a subsequent securitization.

Substantially all non-prime loans originated and subsequently sold or securitized are transferred with servicing rights retained. Servicing activities include processing of mortgage loan payments and the administration of mortgage loans, with loan servicing fees received monthly over the life of the mortgage loans. The Company has traditionally received a servicing fee of 50 basis points per annum on the outstanding principal balance of loans sold or securitized, as well as the right to receive certain ancillary income including, but not limited to, late fees. In recent transactions, step-servicing fee structures have been implemented. The purpose of step-servicing is to better match the stream of incoming servicing revenues against the related servicing expenses. Generally, the cost to service a pool of loans is lower immediately after origination and increases as the related loan pool ages. Recent step-servicing fee structures provide the company with a servicing fee of 30 basis points per annum for the first 10 months of servicing, 40 basis points per annum for the next 20 months of servicing and 65 basis points for the remainder of the servicing term.

Prime mortgage loans are sold in whole loan sales, servicing rights released, to third-party buyers.

Market interest rates have begun to increase after a sustained period of declining rates. In a rising interest rate environment the Company expects its profit margins will narrow from their historically high levels due to less favorable loan execution pricing. Actual execution pricing on sales of mortgage assets declined to 3.87% during the three months ended October 31, 2003 compared to 4.78% in the prior year. As such, growth in pretax income for the mortgage operations segment is expected to be more moderate or perhaps decline from results (excluding a \$130.9 million gain on sale of NIM residual interests) for the fiscal year ended April 30, 2003.

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Mortgage Operations — Three-Month Statistics

(dollars in 000s)

	Three months ended		
	October 31, 2003	October 31, 2002	July 31, 2003
Number of loans originated:			
Wholesale (non-prime)	36,233	21,536	28,494
Retail: Prime	1,944	3,089	4,005
Non-prime	4,110	2,754	3,004
Total	42,287	27,379	35,503
Volume of loans originated:			
Wholesale (non-prime)	\$ 5,603,118	\$ 3,083,895	\$ 4,405,224
Retail: Prime	247,661	444,469	540,326
Non-prime	492,977	351,694	365,331
Total	\$ 6,343,756	\$ 3,880,058	\$ 5,310,881
Loan sales	\$ 6,330,449	\$ 3,821,649	\$ 5,301,341
Weighted average FICO score ⁽¹⁾	611	604	607
Execution price — Net gain on sale ⁽¹⁾	3.87%	4.78%	4.42%
Weighted average interest rate for borrowers ⁽¹⁾	7.51%	8.24%	7.54%
Weighted average loan-to-value ⁽¹⁾	78.2%	79.1%	78.3%

(1) Defined as total premium received divided by total balance of loans delivered to third party investors or securitization vehicles (excluding mortgage servicing rights and the effect of loan origination expenses).

(2) Represents non-prime production.

Mortgage Operations — Three-Month Results

(in 000s)

	Three months ended		
	October 31, 2003	October 31, 2002	July 31, 2003
Components of gains on sales:			
Gains on sales of mortgage assets	\$ 220,652	\$ 155,079	\$ 203,382
Impairment of residual interests	(363)	(3,702)	(10,743)
Total gains on sales	220,289	151,377	192,639
Loan servicing revenue	51,659	41,325	48,317
Accretion income	36,843	54,092	34,063
Interest income	41,858	27,429	27,274
Other	507	365	602
Total revenues	351,156	274,588	302,895
Compensation and benefits	77,152	62,226	65,483
Servicing and processing	26,609	16,606	25,251
Occupancy and equipment	12,589	10,364	11,558
Bad debt expense	12,226	3,296	9,514
Other	38,554	28,576	27,260
Total expenses	167,130	121,068	139,066
Pretax income	\$ 184,026	\$ 153,520	\$ 163,829

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Three months ended October 31, 2003 compared to October 31, 2002

Mortgage Operations' revenues increased \$76.6 million, or 27.9%, for the three months ended October 31, 2003 compared to the prior year. Revenue increased primarily as a result of higher production volumes.

The following table summarizes the key drivers of gains on sales of mortgage loans:

(dollars in 000s)

	Three months ended October 31,	
	2003	2002
Number of sales associates ⁽¹⁾	2,476	2,005
Total number of applications	72,858	55,026
Closing ratio ⁽²⁾	58.0%	49.8%
Total number of originations	42,287	27,379
Average loan size	\$ 150	\$ 142
Total originations	\$ 6,343,756	\$ 3,880,058
Non-prime / prime ratio	24.6 : 1	7.7 : 1
Commitments to fund loans	\$ 3,244,958	\$ 2,221,671
Loan sales	\$ 6,330,449	\$ 3,821,649
Gains on sales of mortgage assets	\$ 220,652	\$ 155,079
Execution price — net gain on sale ⁽³⁾	3.87%	4.78%

(1) Includes all direct sales and back office sales support associates.

(2) Percentage of loans funded divided by total applications.

(3) Defined as total premium received divided by total balance of loans delivered to third party investors or securitization vehicles (excluding mortgage servicing rights and the effect of loan origination expenses).

Gains on sales of mortgage loans and related assets increased \$65.6 million for the three months ended October 31, 2003. The increase over last year is a result of a significant increase in loan origination volume, partially offset by a decrease in loan sale execution pricing and an increase in loan origination expenses. During the second quarter, the Company originated \$6.3 billion in mortgage loans compared to \$3.9 billion last year, an increase of 63.5%. The execution price on mortgage loans originated and sold decreased to 3.87% for the current quarter compared to 4.78% last year, primarily as a result of a decrease in the average interest rate during the period.

Impairments of residual interests in securitizations of \$0.4 million were recognized in the current period, compared to \$3.7 million for the three months ended October 31, 2002.

The following table summarizes the key drivers of loan servicing revenues:

(dollars in 000s)

	Three months ended October 31,	
	2003	2002
Number of loans serviced	295,636	220,842
Average servicing portfolio	\$ 36,825,033	\$ 26,141,181
Average delinquency rate	6.28%	7.21%
Value of MSRs	\$ 111,960	\$ 99,774

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Loan servicing revenues increased \$10.3 million, or 25.0%, compared to the prior year. The increase reflects a higher loan servicing portfolio. The average servicing portfolio for the three-month period ended October 31, 2003 increased \$10.7 billion, or 40.9%, to \$36.8 billion.

Total accretion of residual interests of \$36.8 million for the three months ended October 31, 2003 represents a decrease of \$17.2 million from prior year accretion of \$54.1 million. This decline is due to a lower average balance of related residuals, resulting primarily from the sale of previously securitized residual interests (NIM residuals) during the third quarter of fiscal year 2003.

During the second quarter of fiscal year 2004, the Company's residual interests continued to perform better than expected compared to internal valuation models, primarily due to sustained low interest rates and more favorable prepayment and loss rates. As a result of these items, the Company recorded pretax mark-to-market write-ups, which increased the fair value of its residual interests \$20.9 million during the quarter. These write-ups were recorded, net of write-downs of \$10.4 million and deferred taxes of \$4.0 million, in other comprehensive income and will be accreted into income throughout the remaining life of those residual interests. Future changes in interest rates or other assumptions, based on market conditions or actual loan pool performance, could cause additional adjustments to the fair value of the residual interests and could cause changes to the accretion of these residual interests in future periods. Additionally, sales of NIM residual interests would result in decreases to accretion income in future periods.

Interest income increased \$14.4 million, or 52.6%, for the quarter ended October 31, 2003, primarily due to an increase in the average balance on loans held by the Trusts. This increase was offset by lower interest margin earned. Interest margin is the difference between the rate on the underlying loans and the financing costs of the Trusts. The interest margin decreased to 5.39% for the three months ended October 31, 2003, from 5.64% a year ago.

Total expenses for the three months ended October 31, 2003, increased \$46.1 million, or 38.0%, over the year-ago quarter. This increase is primarily due to \$14.9 million in increased compensation and benefits as a result of a 23.5% increase in sales associates needed to support higher loan production volumes. Servicing and processing expenses increased by \$10.0 million as a result of a higher average servicing portfolio during the three months ended October 31, 2003. Occupancy and equipment charges increased \$2.2 million due to nine additional branch offices opened since the prior year quarter ended, continued expansion of the second servicing center that opened in August 2002 and additional administrative office space. Bad debt expense increased \$8.9 million primarily due to more whole loan sales than securitizations in the current year, for which higher reserves are set up at the time of sale for estimated repurchases. Whole loan sales accounted for 79% of total loan sales, compared to 72% in the prior year. Other expenses increased by \$10.0 million to \$38.6 million for the current quarter, primarily due to \$2.0 million in increased marketing expenses and \$4.5 million in increased allocated corporate and shared costs. Allocated costs increased as a result of additional insurance costs and the expensing of stock-based compensation.

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Pretax income increased \$30.5 million to \$184.0 million for the three months ended October 31, 2003.

Three months ended October 31, 2003 compared to July 31, 2003

Mortgage Operations' revenues increased \$48.3 million, or 15.9%, for the three months ended October 31, 2003, compared to the preceding quarter.

The following table summarizes the key drivers of gains on sales of mortgage loans:

	Three months ended	
	October 31, 2003	July 31, 2003
(dollars in 000s)		
Number of sales associates ⁽¹⁾	2,476	2,330
Total number of applications	72,858	62,544
Closing ratio ⁽²⁾	58.0%	56.8%
Total number of originations	42,287	35,503
Average loan size	\$ 150	\$ 150
Total originations	\$ 6,343,756	\$ 5,310,881
Non-prime / prime ratio	24.6 : 1	8.8 : 1
Commitments to fund loans	\$ 3,244,958	\$ 2,900,917
Loan sales	\$ 6,330,449	\$ 5,301,341
Gains on sales of mortgage assets	\$ 220,652	\$ 203,382
Execution price - net gain on sale ⁽³⁾	3.87%	4.42%

(1) Includes all direct sales and back office sales support associates.

(2) Percentage of loans funded divided by total applications.

(3) Defined as total premium received divided by total balance of loans delivered to third party investors or securitization vehicles (excluding mortgage servicing rights and the effect of loan origination expenses).

Gains on sales of mortgage loans and related assets for both wholesale and retail increased \$17.3 million to \$220.7 million for the current quarter. This increase from the preceding quarter is primarily a result of a 19.4% increase in loans originated, which was partially offset by a decrease in execution price on loan sales as a result of the rising interest rate environment. The execution price on loan sales for the quarter decreased to 3.87% from 4.42% for the three months ended July 31, 2003.

Impairments of residual interests in securitizations of \$0.4 million were recognized during the second quarter, compared to \$10.7 million for the three months ended July 31, 2003. The first quarter impairments resulted from a decline in value of older residuals based on loan performance.

The following table summarizes the key drivers of loan servicing revenues:

	Three months ended	
	October 31, 2003	July 31, 2003
(dollars in 000s)		
Number of loans serviced	295,636	261,344
Average servicing portfolio	\$ 36,825,033	\$ 32,757,225
Average delinquency rate	6.28%	6.60%
Value of MSRs	\$ 111,960	\$ 106,056

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Loan servicing revenues increased \$3.3 million, or 6.9%, compared to the first quarter of fiscal year 2004. The increase reflects a higher loan-servicing portfolio. The average servicing portfolio for the three months ended October 31, 2003 increased \$4.1 billion, or 12.4%, to \$36.8 billion.

Accretion of residual interests of \$36.8 million represents an increase of 8.2% from the preceding quarter accretion of \$34.1 million, primarily due to write-ups taken during the first quarter of fiscal year 2004.

Interest income increased \$14.6 million, or 53.5%, for the quarter ended October 31, 2003, due to an increase in the average balance on loans held by the Trusts. This increase was offset by lower interest margin earned. The interest margin decreased to 5.39% during the three months ended October 31, 2003, from 5.51% in the first quarter.

Total expenses increased \$28.1 million, or 20.2%, primarily due to increased compensation and benefit costs associated with the increase in sales associates. Bad debt expense increased \$2.7 million primarily due to more whole loan sales than securitizations in the current quarter, which requires higher reserves to be set up at the time of sale for estimated repurchases. Whole loan sales accounted for 79% of total loan sales, compared to 57% in the first quarter. Other expenses also increased \$11.3 million due to \$2.7 million of additional marketing expenses, \$2.3 million in additional consulting expenses and \$1.2 million of additional depreciation and amortization. Allocated corporate and shared costs also increased \$2.5 million, primarily due to increased insurance costs and the expensing of stock-based compensation.

Pretax income increased \$20.2 million, or 12.3%, for the three months ended October 31, 2003 compared to the preceding quarter.

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Mortgage Operations -- Six-Month Statistics

(dollars in 000s)

	Six months ended	
	October 31, 2003	October 31, 2002
Number of loans originated:		
Wholesale (non-prime)	64,727	42,310
Retail: Prime	5,949	4,988
Non-prime	7,114	5,133
Total	77,790	52,431
Volume of loans originated:		
Wholesale (non-prime)	\$ 10,008,341	\$ 5,920,954
Retail: Prime	787,987	698,509
Non-prime	858,308	633,984
Total	\$ 11,654,636	\$ 7,253,447
Loan sales:		
Loans originated and sold	\$ 11,631,790	\$ 7,179,379
Loans acquired and sold		633,953
Total	\$ 11,631,790	\$ 7,813,332
Weighted average FICO score ⁽¹⁾	609	601
Execution price - Net gain on sale ⁽¹⁾	4.18%	4.83%
Loans originated and sold	4.18%	4.83%
Loans acquired and sold	—%	0.18%
Total	4.18%	4.44%
Weighted average interest rate for borrowers ⁽¹⁾	7.53%	8.52%
Weighted average loan-to-value ⁽²⁾	78.2%	79.1%

(1) Defined as total premium received divided by total balance of loans delivered to third party investors or securitization vehicles (excluding mortgage servicing rights and the effect of loan origination expenses).

(2) Represents non-prime production.

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Mortgage Operations — Six-Month Results

(in 000s)	Six months ended	
	October 31, 2003	October 31, 2002
Components of gains on sales:		
Gains on sales of mortgage assets	\$ 424,034	\$ 320,517
Impairment of residual interests	(11,106)	(24,132)
Total gains on sales	412,928	296,385
Loan servicing revenue	99,976	80,275
Accretion income	70,906	92,853
Interest income	69,132	54,266
Other	1,109	1,115
Total revenues	654,051	524,894
Compensation and benefits	142,635	115,195
Servicing and processing	51,860	31,627
Occupancy and equipment	24,147	17,938
Bad debt expense	21,740	9,117
Other	65,814	50,412
Total expenses	306,196	224,289
Pretax income	\$ 347,855	\$ 300,605

Six months ended October 31, 2003 compared to October 31, 2002

Mortgage Operations' revenues increased \$129.2 million, or 24.6%, for the six months ended October 31, 2003 compared to the prior year. Revenue increased primarily as a result of higher production volumes.

The following table summarizes the key drivers of gains on sales of mortgage loans:

(dollars in 000s)	Six months ended October 31,	
	2003	2002
Number of sales associates ⁽¹⁾	2,476	2,005
Total number of applications	135,402	102,661
Closing ratio ⁽²⁾	57.5%	51.1%
Total number of originations	77,790	52,431
Average loan size	\$ 150	\$ 138
Total originations	\$ 11,654,636	\$ 7,253,447
Non-prime / prime ratio	13.8 : 1	9.4 : 1
Commitments to fund loans	\$ 3,244,958	\$ 2,221,671
Loan sales	\$ 11,631,790	\$ 7,813,332
Gains on sales of mortgage assets	\$ 424,034	\$ 320,517
Execution price — net gain on sale ⁽³⁾	4.18%	4.44%

(1) Includes all direct sales and back office sales support associates.

(2) Percentage of loans funded divided by total applications.

(3) Defined as total premium received divided by total balance of loans delivered to third party investors or securitization vehicles (excluding mortgage servicing rights and the effect of loan origination expenses).

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Gains on sales of mortgage loans and related assets increased \$103.5 million for the six months ended October 31, 2003. The increase over last year is a result of a significant increase in loan origination volume, partially offset by a decrease in loan sale execution pricing and increased loan origination expenses. During the current year, the Company originated \$11.7 billion in mortgage loans compared to \$7.3 billion last year, an increase of 60.7%. The execution price on mortgage loans originated and sold decreased to 4.18% for the current period compared to 4.83% last year, primarily as a result of a decrease in the average interest rate during the period.

Impairments of residual interests in securitizations of \$11.1 million were recognized in the six months ended October 31, 2003, due to a decline in value of older residuals based on loan performance. Impairments of residuals for the six months ended October 31, 2002 totaled \$24.1 million.

The following table summarizes the key drivers of loan servicing revenues:

(dollars in 000s)

	Six months ended October 31,	
	2003	2002
Number of loans serviced	295,636	220,842
Average servicing portfolio	\$ 34,896,920	\$ 25,707,639
Average delinquency rate	6.43 %	6.92 %
Value of MSR's	\$ 111,960	\$ 99,774

Loan servicing revenues increased \$19.7 million, or 24.5%, this year. The increase reflects a higher loan servicing portfolio. The average servicing portfolio for the six months ended October 31, 2003 increased \$9.2 billion, or 35.7%, to \$34.9 billion.

Total accretion of residual interests of \$70.9 million for the six months ended October 31, 2003 represents a decrease of \$21.9 million from prior year accretion of \$92.9 million. This decline is due to a lower average balance of related residuals, resulting primarily from the sale of NIM residuals during the third quarter of fiscal year 2003.

The Company recorded pretax mark-to-market write-ups on its residual interests, which increased the fair value \$78.4 million during the period. These write-ups were recorded, net of write-downs of \$14.3 million and deferred taxes of \$24.4 million, in other comprehensive income and will be accreted into income throughout the remaining life of those residual interests. Future changes in interest rates or other assumptions, based on market conditions or actual loan pool performance, could cause additional adjustments to the fair value of the residual interests and could cause changes to the accretion of these residual interests in future periods. Additionally, sales of NIM residual interests would result in decreases to accretion income in future periods.

Interest income increased \$14.9 million, or 27.4%, for the six months ended October 31, 2003, due to an increase in the average balance on loans held by the Trusts. This increase was offset by lower interest margin earned. The interest margin decreased to 5.45% during the six months ended October 31, 2003, from 5.85% a year ago.

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Total expenses for the six months ended October 31, 2003, increased \$81.9 million, or 36.5% over the year-ago period. This increase is primarily due to a \$27.4 million increase in compensation and benefits as a result of a 23.5% increase in sales associates needed to support higher loan production volumes. Servicing and processing expenses increased by \$20.2 million as a result of a higher average servicing portfolio during the six months ended October 31, 2003. Occupancy and equipment charges increased \$6.2 million due to nine additional branch offices opened since October 2002, continued expansion of the second servicing center that opened in August 2002 and additional administrative office space. Bad debt expense increased \$12.6 million primarily as a result of the increase in whole loan sales compared to securitizations, for which higher reserves are set up at the time of sale for estimated repurchases. Other expenses increased by \$15.4 million to \$65.8 million for the current period, primarily due to \$4.4 million in increased marketing expenses and \$5.9 million in increased allocated corporate and shared costs. Allocated costs increased due to higher insurance costs and the expensing of stock-based compensation.

Pretax income increased \$47.3 million to \$347.9 million for the six months ended October 31, 2003.

Business Services

This segment is engaged in providing accounting, tax, consulting, payroll, employee benefits and capital markets services to business clients and tax, financial and estate planning, wealth management and insurance services to individuals. Business Services provides accounting, payroll and human resources services to McGladrey & Pullen LLP (M&P) in exchange for a management fee. The Company also has commitments to fund M&P's operations.

A substantial portion of Business Services' business is generated by one-time projects or extended services. Improvements in the current business environment have caused clients to begin cautiously spending money on discretionary projects. Results in the Company's consulting services remain weak while other service revenues are seeing improvement.

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Business Services — Three-Month Results

(in 000s)	Three months ended		
	October 31, 2003	October 31, 2002	July 31, 2003
Traditional accounting	\$ 54,441	\$ 51,195	\$ 45,096
Business consulting	21,174	21,755	21,575
Capital markets	17,870	10,563	16,630
Other	15,539	14,370	15,198
Total revenues	109,024	97,883	98,499
Compensation and benefits	75,397	65,654	70,285
Occupancy and equipment	6,785	6,789	6,066
Depreciation and amortization	5,647	5,457	5,496
Marketing and advertising	1,660	1,775	2,195
Bad debt expense	1,116	2,439	1,361
Other	21,151	19,554	19,775
Total expenses	111,756	101,668	105,178
Pretax loss	\$ (2,732)	\$ (3,785)	\$ (6,679)

Three months ended October 31, 2003 compared to October 31, 2002

Business Services' revenues for the three months ended October 31, 2003 increased \$11.1 million, or 11.4%, from the prior year. This increase was primarily due to a \$7.3 million increase in capital markets revenues, resulting from a higher number of business valuation projects. Traditional accounting revenues also increased \$3.2 million due to more billable hours during the quarter for tax services.

Total expenses increased \$10.1 million, or 9.9%, for the three months ended October 31, 2003 compared to the prior year. Compensation and benefits costs increased \$9.7 million, primarily as a result of the increased activity in the capital markets business. Additionally, other expenses increased \$1.6 million, primarily due to increased employee recruiting costs.

The pretax loss for the three months ended October 31, 2003 was \$2.7 million compared to a loss of \$3.8 million in the prior year.

Due to the seasonal nature of this segment's business, operating results for the three months ended October 31, 2003 are not comparable to the three months ended July 31, 2003 and are not indicative of the expected results for the entire fiscal year.

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Business Services — Six-Month Results

(in 000s)	Six months ended	
	October 31, 2003	October 31, 2002
Traditional accounting	\$ 99,537	\$ 101,117
Business consulting	42,749	43,493
Capital markets	34,500	20,481
Other	30,737	28,106
Total revenues	207,523	193,197
Compensation and benefits	145,682	134,728
Occupancy and equipment	12,851	11,291
Depreciation and amortization	11,143	11,192
Marketing and advertising	3,855	3,265
Bad debt expense	2,477	3,328
Other	40,926	37,451
Total expenses	216,934	201,255
Pretax loss	\$ (9,411)	\$ (8,058)

Six months ended October 31, 2003 compared to October 31, 2002

Business Services' revenues for the six months ended October 31, 2003 increased \$14.3 million, or 7.4%, from the prior year. This increase was primarily due to a \$14.0 million increase in capital markets revenues, resulting from a higher number of business valuation projects. Other revenues also increased \$2.6 million due to improved performance in the outsourced services area. These increases were partially offset by a slight decline in traditional accounting revenues.

Total expenses increased \$15.7 million, or 7.8%, for the six months ended October 31, 2003 compared to the prior year. Compensation and benefits costs increased \$11.0 million, primarily as a result of the increased activity in the capital markets business. Additionally, other expenses increased \$3.5 million, primarily due to increased recruiting and insurance costs.

The pretax loss for the six months ended October 31, 2003 was \$9.4 million compared to a loss of \$8.1 million in the prior year.

Investment Services

This segment is primarily engaged in offering investment services and securities products through H&R Block Financial Advisors, Inc. (HRBFA), a full-service securities broker-dealer and a registered investment advisor. Products and services offered to Investment Services' customers include: equities, annuities, fixed income products, mutual funds, margin accounts, money market funds with sweep provisions for settlement of customer transactions, checking privileges, account access/review via the internet, online trading, fee-based accounts, individual retirement accounts, dividend reinvestment and option accounts, equity research and focus lists, model portfolios, asset allocation strategies, economic commentaries and other investment tools and information. In addition, clients of the Company's U.S. Tax Operations segment are given the opportunity to open an Express IRA through HRBFA as a part of the income tax return preparation process.

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Key to the future success of the Investment Services segment is retention of its financial advisors and recruitment of new advisors. One of the Company's key initiatives is to build revenues through the addition of experienced financial advisors. More than 100 new advisors have been recruited through the second quarter, which was offset by attrition of primarily less experienced advisors. The retention and recruitment of experienced advisors continues to be a key initiative for fiscal year 2004.

Investment Services — Three-Month Statistics

	Three months ended		
	October 31, 2003	October 31, 2002	July 31, 2003
Customer trades (1)	347,828	292,880	363,053
Customer daily average trades	5,351	4,576	5,339
Average revenue per trade (2)	\$ 116.22	\$ 119.21	\$ 126.46
Number of active accounts	748,403	710,495	755,643
Average trades per active account per quarter	0.46	0.41	0.48
Average trades per active account per year (annualized)	1.86	1.65	1.92
Ending balance of assets under administration (billions)	\$ 25.7	\$ 21.4	\$ 24.3
Average assets per active account	\$ 34,340	\$ 30,102	\$ 32,114
Ending margin balances (millions)	\$ 538	\$ 503	\$ 517
Ending customer payables balances (millions)	\$ 981	\$ 821	\$ 923
Number of advisors	1,010	1,055	1,001

Included in the numbers above are the following relating to fee-based accounts:

Customer accounts	5,174	4,351	4,894
Average revenue per account	\$ 1,897	\$ 1,505	\$ 1,701
Ending balance of assets under administration (millions)	\$ 1,088	\$ 658	\$ 916
Average assets per active account	\$ 210,290	\$ 151,170	\$ 187,064

(1) Includes both trades on which commissions are earned ("commissionable trades") and trades for which no commission is earned ("fee-based trades"). Excludes open-ended mutual fund redemptions.

(2) Calculated as total commissions divided by commissionable trades.

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Investment Services -- Three-Month Results

(in 000s)	Three months ended		
	October 31, 2003	October 31, 2002	July 31, 2003
Transactional revenue	\$ 23,162	\$ 22,906	\$ 25,985
Annuitized revenue	13,689	8,029	12,476
Production revenue	36,851	30,935	38,461
Other revenue	7,795	9,334	9,996
Non-interest revenue	44,646	40,269	48,457
Margin interest revenue	8,057	9,758	8,530
Less: interest expense	207	1,586	610
Net interest revenue	7,850	8,172	7,920
Total revenues (1)	52,496	48,441	56,377
Commissions	10,875	9,740	12,441
Other variable expenses	1,403	831	1,201
Total variable expenses	12,278	10,571	13,642
Gross profit	40,218	37,870	42,735
Compensation and benefits	22,751	23,360	22,430
Occupancy and equipment	6,823	6,640	7,221
Depreciation and amortization	11,046	12,946	11,591
Impairment of goodwill	—	6,000	—
Other	10,223	13,929	11,469
Allocated corporate and shared costs	4,711	2,931	3,781
Total fixed expenses	55,554	65,806	56,492
Pretax loss	\$ (15,336)	\$ (27,936)	\$ (13,757)

(1) Total revenues, less interest expense.

Three months ended October 31, 2003 compared to October 31, 2002

Investment Services' revenues, net of interest expense, for the three months ended October 31, 2003 increased \$4.1 million, or 8.4%, to \$52.5 million compared to prior year revenues of \$48.4 million. The increase is primarily due to higher annuitized revenues, which are based on customer assets rather than transactions.

Transactional revenue, which is based on transaction or trade quantities, rose \$0.3 million, or 1.1%, from the prior year due to an increase in trading activity, partially offset by a decline in the average revenue per trade. Annuitized revenues increased \$5.7 million, or 70.5%, due to increased sales of annuities and mutual funds.

Margin interest revenue declined 17.4% from the prior year to \$8.1 million, which is primarily a result of a 13.4% decline in interest rates and an 8.1% decrease in average margin balances. Margin balances have declined from an average of \$560.0 million for the three months ended October 31, 2002 to \$514.4 million in the current period, due to weak investor confidence.

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Interest expense for the second quarter of fiscal year 2004 declined 87.0% to \$0.2 million compared to \$1.6 million in the second quarter of fiscal year 2003.

Total expenses decreased \$8.5 million, or 11.2%, to \$67.8 million primarily as a result of the \$6.0 million goodwill impairment charge recorded in the prior year. Other expenses decreased primarily as a result of consulting fees incurred in the prior year related to the conversion to a new back-office system.

The pretax loss for Investment Services for the second quarter of fiscal year 2004 was \$15.3 million compared to the prior year loss of \$27.9 million.

Three months ended October 31, 2003 compared to July 31, 2003

Investment Services' revenues, net of interest expense, for the three months ended October 31, 2003 declined \$3.9 million, or 6.9%, to \$52.5 million compared to the preceding quarter.

Production revenue decreased \$1.6 million, or 4.2%, primarily due to the continued shift to fee-based products.

Margin interest revenue fell \$0.5 million, or 5.5%, to \$8.1 million for the quarter ended October 31, 2003, which is primarily a result of lower interest rates.

Total expenses decreased \$2.3 million from the preceding quarter. The \$1.6 million decrease in commission expense is primarily due to the decline in production revenues. In addition, other expenses declined \$1.2 million primarily as a result of first quarter postage costs related to customer mailings.

The pretax loss for the Investment Services segment was \$15.3 million, compared to a loss of \$13.8 million in the first quarter of fiscal year 2004.

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Investment Services — Six-Month Statistics

	Six months ended	
	October 31, 2003	October 31, 2002
Customer trades ⁽¹⁾	710,881	667,130
Customer daily average trades	5,345	5,253
Average revenue per trade ⁽²⁾	\$ 121.44	\$ 119.04
Number of active accounts	748,403	710,495
Ending balance of assets under administration (billions)	\$ 25.7	\$ 21.4
Average assets per active account	\$ 34,340	\$ 30,102
Ending margin balances (millions)	\$ 538	\$ 503
Ending customer payables balances (millions)	\$ 981	\$ 821
Number of advisors	1,010	1,055

Included in the numbers above are the following relating to fee-based accounts:

Customer accounts	5,174	4,351
Average revenue per account	\$ 1,753	\$ 1,484
Ending balance of assets under administration (millions)	\$ 1,088	\$ 658
Average assets per active account	\$ 210,290	\$ 151,170

(1) Includes both trades on which commissions are earned ("commissionable trades") and trades for which no commission is earned ("fee-based trades"). Excludes open-ended mutual fund redemptions.

(2) Calculated as total commissions divided by commissionable trades.

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Investment Services Six-Month Results

	Six months ended	
	October 31, 2003	October 31, 2002
(in 000s)		
Transactional revenue	\$ 49,147	\$ 51,865
Annuitized revenue	26,165	17,368
Production revenue	75,312	69,233
Other revenue	17,791	18,503
Non-interest revenue	93,103	87,736
Margin interest revenue	16,587	20,954
Less: interest expense	817	3,277
Net interest revenue	15,770	17,677
Total revenues ⁽¹⁾	108,873	105,413
Commissions	23,316	21,120
Other variable expenses	2,604	1,379
Total variable expenses	25,920	22,499
Gross profit	82,953	82,914
Compensation and benefits	45,181	47,211
Occupancy and equipment	14,044	13,262
Depreciation and amortization	22,637	25,647
Impairment of goodwill	—	24,000
Other	21,692	27,628
Allocated corporate and shared costs	8,492	5,899
Total fixed expenses	112,046	143,647
Pretax loss	\$ (29,093)	\$ (60,733)

(1) Total revenues, less interest expense.

Six months ended October 31, 2003 compared to October 31, 2002

Investment Services' revenues, net of interest expense, for the six months ended October 31, 2003 improved \$3.5 million, or 3.3%, to \$108.9 million compared to prior year revenues of \$105.4 million. The increase is primarily due to higher annuitized revenue.

Transactional revenue declined \$2.7 million, or 5.2%, from the prior year due to the continued shift to fee-based products. Annuitized revenues increased \$8.8 million, or 50.7%, due to increased sales of annuities and mutual funds.

Margin interest revenue declined 20.8% from the prior year to \$16.6 million, which is primarily a result of lower margin balances. Margin balances have declined from an average of \$640.0 million for the six months ended October 31, 2002 to \$507.7 million in the current period. Interest expense for the first half of fiscal year 2004 declined 75.1% to \$0.8 million compared to \$3.3 million in the first half of fiscal year 2003.

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Total expenses decreased \$28.2 million, or 17.0%, to \$138.0 million primarily as a result of the \$24.0 million goodwill impairment charge recorded in the prior year. Other expenses decreased \$5.9 million primarily as a result of consulting fees incurred in the prior year related to the conversion to a new back-office system. Depreciation and amortization declined by \$3.0 million as a result of the consolidation of field offices and the related asset sales. Commissions and other variable expenses increased as a result of higher production revenues.

The pretax loss for Investment Services for the first half of fiscal year 2004 was \$29.1 million compared to the prior year loss of \$60.7 million.

International Tax Operations

This segment is primarily engaged in providing local tax return preparation, filing and related services in Canada, Australia and the United Kingdom. In addition, International Tax Operations includes Overseas operations, which consists of company-owned and franchise offices in eight countries that prepare U.S. tax returns for U.S. citizens living abroad. This segment served 2.3 million taxpayers in fiscal year 2003.

Tax-related service revenues include fees from company-owned tax offices and royalties from franchise offices. The Canadian tax season is from January to April, the Australian tax season is from July to October and the United Kingdom's tax season is from August to March.

Operations in this segment of the Company are transacted in the local currencies of the countries in which it operates, therefore the results can be affected by the translation into U.S. dollars. The weakening of the U.S. dollar during the quarter had the impact of increasing reported revenues, income and losses.

International Tax Operations - Three-Month Results

(in 000s)	Three months ended		
	October 31, 2003	October 31, 2002	July 31, 2003
Revenues:			
Canada	\$ 3,025	\$ 2,529	\$ 3,766
Australia	15,657	12,345	1,123
United Kingdom	305	329	319
Overseas	108	123	251
Total revenues	<u>19,095</u>	<u>15,326</u>	<u>5,459</u>
Pretax income (loss):			
Canada	(4,858)	(4,260)	(3,695)
Australia	6,297	5,030	(2,010)
United Kingdom	(196)	(193)	(189)
Overseas	(127)	(359)	(78)
Allocated corporate and shared costs	<u>(561)</u>	<u>(468)</u>	<u>(436)</u>
Pretax income (loss)	<u>\$ 555</u>	<u>\$ (250)</u>	<u>\$ (6,408)</u>

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Three months ended October 31, 2003 compared to October 31, 2002

International Tax Operations' revenues for the three months ended October 31, 2003 increased \$3.8 million, or 24.6%, compared to the three months ended October 31, 2002. This improvement is primarily due to results in Australia, where tax returns prepared in the current quarter increased 3.2% compared to the prior year. Additionally, the average charge per return increased 1.3%.

Pretax income of \$0.6 million for the quarter ended October 31, 2003, was an improvement of \$0.8 million compared to the loss recorded in the second quarter last year. This improvement is due primarily to strong performance in the Australian tax season. This improvement was partially offset by unfavorable exchange rates in Canada.

Due to the seasonal nature of this segment's business, operating results for the three months ended October 31, 2003 are not comparable to the three months ended July 31, 2003 and are not indicative of the expected results for the entire fiscal year.

International Tax Operations — Six-Month Results

(in 000s)	Six months ended	
	October 31, 2003	October 31, 2002
Revenues:		
Canada	\$ 6,791	\$ 5,334
Australia	16,780	13,237
United Kingdom	624	642
Overseas	359	396
Total revenues	24,554	19,609
Pretax income (loss):		
Canada	(8,553)	(8,490)
Australia	4,287	3,451
United Kingdom	(385)	(331)
Overseas	(205)	(456)
Allocated corporate and shared costs	(997)	(875)
Pretax income (loss)	\$ (5,853)	\$ (6,701)

Six months ended October 31, 2003 compared to October 31, 2002

International Tax Operations' revenues for the six months ended October 31, 2003 increased \$4.9 million, or 25.2%, compared to the six months ended October 31, 2002. This improvement is primarily due to results in Australia, where tax returns prepared in the current period increased 3.5% compared to the prior year and the average charge per return increased 1.4%. Canadian revenues also improved, due to increases of 6.1% in both the number of off-season returns and average charge per return.

The pretax loss of \$5.9 million for the six months ended October 31, 2003, was an improvement of \$0.8 million compared to the loss recorded in the prior year. Results in Australia improved as a result of better performance in the Australian tax season.

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Corporate Operations

This segment consists primarily of corporate support departments, which provide services to the Company's operating segments. These support departments consist of marketing, information technology, facilities, human resources, executive, legal, finance, government relations and corporate communications. These support department costs are largely allocated to the Company's operating segments. The Company's captive insurance and franchise financing subsidiaries are also included within this segment.

Corporate Operations — Three-Month Results

(in 000s)	Three months ended		
	October 31, 2003	October 31, 2002	July 31, 2003
Operating revenues	\$ 2,253	\$ 1,553	\$ 2,728
Eliminations	(1,565)	(1,410)	(1,400)
Total revenues	688	143	1,328
Corporate expenses:			
Compensation and benefits	930	4,476	3,069
Interest expense:			
Interest on acquisition debt	17,074	18,203	17,672
Other interest	89	1,299	175
Marketing and advertising	(2)	83	(76)
Other	2,869	5,353	6,845
	20,960	29,414	27,685
Support departments:			
Information technology	26,738	22,348	23,213
Marketing	5,430	6,069	2,664
Finance	8,835	7,293	6,899
Stock-based compensation	3,084	—	1,040
Other	14,108	13,483	9,783
	58,195	49,193	43,599
Allocation of corporate and shared costs	(58,021)	(46,436)	(43,777)
Investment income, net	2,005	533	1,195
Pretax loss	\$ (18,441)	\$ (31,495)	\$ (24,984)

Three months ended October 31, 2003 compared to October 31, 2002

Compensation and benefits decreased primarily as a result of \$2.1 million of additional expenses related to deferred compensation plans in the prior year. The decrease in interest expense on acquisition debt is attributable to lower financing costs and a \$45.1 million payment on acquisition debt in August 2003. Other expenses declined as a result of lower allocations of support department costs to Corporate Operations.

Information technology department expenses increased \$4.4 million, or 19.6%, primarily due to an increase in headcount and related facilities. Stock-based compensation expenses increased as a result of the expensing of all stock-based compensation, which began on May 1, 2003.

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The pretax loss was \$18.4 million, compared with last year's second quarter loss of \$31.5 million.

Due to the nature of this segment, the three months ended October 31, 2003 are not comparable to the three months ended July 31, 2003 and are not indicative of the expected results for the entire fiscal year.

Corporate Operations — Six-Month Results

(in 000s)	Six months ended	
	October 31, 2003	October 31, 2002
Operating revenues	\$ 4,981	\$ 2,291
Eliminations	(2,965)	(2,634)
Total revenues	2,016	(343)
Corporate expenses:		
Compensation and benefits	3,999	8,638
Interest expense:		
Interest on acquisition debt	34,746	36,976
Other interest	264	(1,555)
Marketing and advertising	(78)	230
Other	9,714	12,364
	48,645	56,653
Support departments:		
Information technology	49,951	41,279
Marketing	8,094	10,708
Finance	15,734	13,405
Stock-based compensation	4,124	—
Other	23,891	24,313
	101,794	89,705
Allocation of corporate and shared costs	(101,798)	(88,149)
Investment income, net	3,200	1,617
Pretax loss	\$ (43,425)	\$ (56,935)

Six months ended October 31, 2003 compared to October 31, 2002

Operating revenues increased \$2.7 million as a result of a write-down of investments in the prior year.

Compensation and benefits decreased as a result of \$5.5 million of additional expenses related to deferred compensation plans in the prior year. The decrease in interest expense on acquisition debt is attributable to lower financing costs and a \$45.1 million payment on acquisition debt in August 2003. Other expenses decreased as a result of lower allocations to Corporate Operations.

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Information technology department expenses increased \$8.7 million, or 21.0%, primarily due to an increase in headcount and related facilities. Stock-based compensation expenses increased as a result of the expensing of all stock-based compensation, which began on May 1, 2003.

The pretax loss was \$43.4 million, compared with last year's first quarter loss of \$56.9 million.

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FINANCIAL CONDITION

These comments should be read in conjunction with the condensed consolidated balance sheets and condensed consolidated statements of cash flows found on pages 1 and 3, respectively.

The Company's liquidity needs are met primarily through a combination of operating cash flows, commercial paper (CP) issuance and off-balance sheet financing arrangements.

OPERATING CASH FLOWS & LIQUIDITY BY SEGMENT

Operating cash requirements totaled \$463.4 million and \$349.8 million for the six months ended October 31, 2003 and 2002, respectively. A condensed consolidating statement of cash flows by segment for the six months ended October 31, 2003 follows. Generally, interest is not charged on intercompany activities between segments.

(in 000s)	U.S. Tax Operations	Mortgage Operations	Business Services	Investment Services	International Tax Operations	Corporate Operations	Consolidated H&R Block
Cash provided by (used in):							
Operations	\$ (268,343)	\$ 28,035	\$ 13,285	\$ (56,206)	\$ 16,341	\$ (196,462)	\$ (463,350)
Investing	(120,939)	61,237	(4,785)	351	(2,214)	(25,037)	(91,387)
Financing	—	50,100	(45,425)	—	(107)	(63,854)	(59,286)
Net intercompany	397,255	(144,844)	44,575	40,453	(10,352)	(327,087)	

Net intercompany activities are excluded from the investing and financing activities within the segment cash flows. The Company believes that by excluding the intercompany activities, the cash flows by segment more clearly depict the cash generated and used by each segment. Had the intercompany activities been included, those segments in a net lending situation would have been included in investing activities, and those in a net borrowing situation would have been included in financing activities.

U.S. Tax Operations: U.S. Tax Operations has historically been the largest provider of annual operating cash flows to the Company. This segment generally operates at a loss during the first two quarters of the fiscal year due to off-season costs and preparation activities for the upcoming tax season. The seasonal nature of U.S. Tax Operations generally results in a large positive operating cash flow in the fourth quarter. U.S. Tax Operations had total cash requirements of \$389.3 million for the six months ended October 31, 2003.

Mortgage Operations: This segment generates cash as a result of loan sales and securitizations, NIM transactions, sales of NIM residual interests and as its residual interests mature. Mortgage Operations generated \$28.0 million in cash from operating activities primarily from the sale and securitization of mortgage loans. This segment also generated \$61.2 million in cash from investing activities primarily from cash received on residual interests, and \$50.1 million in cash from financing activities as a result of the on-balance sheet securitization completed during the quarter.

Gains on sales of mortgage loans and related assets totaled \$412.9 million, of which 77% was received as cash. The cash was recorded as operating activities.

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Gains on sales of mortgage assets consist of the following:

(in 000s)	Six months ended	
	October 31, 2003	October 31, 2002
Gains on whole loans sold by the Trusts	\$ 298,460	\$ 216,908
Gains on loans securitized	129,617	119,515
Net change in receivable from the Trusts	54,483	19,828
Gains on retained mortgage servicing rights	48,002	32,699
Net change in fair value of rate-lock commitments	613	4,615
Additions to residual interests	1,814	753
Impairments to fair value of residual interests	(11,106)	(24,132)
Origination expenses, net	(108,955)	(73,801)
	<u>\$ 412,928</u>	<u>\$ 296,385</u>
Percent of gains received as cash	77%	89%

Cash received on residual interests in securitizations totaled \$68.9 and \$103.9 for the six months ended October 31, 2003 and 2002, respectively.

The mortgage segment regularly sells loans as a source of liquidity for its prime and non-prime mortgages. Whole loan sales to the Trusts through October 31, 2003 were \$11.6 billion compared with \$7.8 billion for the same period in fiscal year 2003. Additionally, Block Financial Corporation (BFC) provides the mortgage segment a \$150 million line of credit for working capital needs.

In order to finance its prime originations, the Company utilizes a warehouse facility with capacity up to \$50 million, which expires in June 2004. The facility bears interest at one-month LIBOR plus 64 to 175 basis points. As of October 31, 2003, the balance outstanding under this facility was \$1.6 million and is included in accounts payable, accrued expenses and other on the condensed consolidated balance sheets.

Management believes the sources of liquidity available to the Mortgage Operations segment are predictable and sufficient for its needs. Risks to the stability of these sources include external events impacting the asset-backed securities market. The liquidity available from the NIM transactions is also subject to external events impacting this market. These external events include, but are not limited to, adverse changes in the perception of the non-prime industry or in the regulation of non-prime lending and, to a lesser degree, reduction in the availability of third parties that provide credit enhancement. Performance of the securitizations will also impact the segment's future participation in these markets. The four warehouse facilities used by the Trusts are subject to annual renewal, each at a different time during the year, in April, August, December and February and any of the above events could lead to difficulty in renewing the lines. These risks are mitigated by the availability of whole loan sales and financing provided by the Company, and to a lesser extent, by staggered renewal dates related to these lines.

Business Services: Business Services funding requirements are largely related to working capital needs. Funding is available from the Company sufficient to cover these needs. This

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segment generated \$13.3 million in cash from operating activities primarily related to the collections of receivables in the first half of fiscal year 2004. Business Services used \$45.4 million in financing activities, primarily as a result of payments on acquisition debt.

Investment Services: Investment Services used \$56.2 million in cash from operating activities during the quarter, primarily due to the timing of cash deposits that are restricted for the benefit of customers.

Investment Services, through HRBFA, is subject to regulatory requirements intended to ensure the general financial soundness and liquidity of broker-dealers. HRBFA is required to maintain minimum net capital as defined under Rule 15c3-1 of the Securities Exchange Act of 1934 and complies with the alternative capital requirement, which requires a broker-dealer to maintain net capital equal to the greater of \$250 thousand or 2% of the combined aggregate debit balances arising from customer transactions. The net capital rule also provides that equity capital may not be withdrawn or cash dividends paid if resulting net capital would be less than the greater of 5% of combined aggregate debit items or 120% of the minimum required net capital. As of October 31, 2003, HRBFA's net capital of \$120.3 million, which was 18.9% of aggregate debit items, exceeded its minimum required net capital of \$12.7 million by \$107.6 million. Although HRBFA has always exceeded its minimum net capital requirements, during the six months ended October 31, 2003 the Company contributed \$32.0 million of additional capital to HRBFA.

To manage short-term liquidity, HRBFA maintains a \$300 million unsecured credit facility with BFC, its indirect corporate parent. As of October 31, 2003 there were no outstanding balances on this facility.

Liquidity needs relating to client trading and margin-borrowing activities are met primarily through cash balances in client brokerage accounts and working capital. Management believes these sources of funds will continue to be the primary sources of liquidity for Investment Services. Stock loans have historically been used as a secondary source of funding and could be used in the future, if warranted.

Securities borrowed and securities loaned transactions are generally reported as collateralized financings. These transactions require the Company to deposit cash and/or collateral with the lender. Securities loaned consist of securities owned by customers, which were purchased on margin. When loaning securities, the Company receives cash collateral approximately equal to the value of the securities loaned. The amount of cash collateral is adjusted, as required, for market fluctuations in the value of the securities loaned. Interest rates paid on the cash collateral fluctuate as short-term interest rates change.

To satisfy the margin deposit requirement of client option transactions with the Options Clearing Corporation (OCC), Investment Services pledges customers' margined securities. Pledged securities as of October 31, 2003 totaled \$73.8 million, an excess of \$18.6 million over the margin requirement.

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Management believes the funding sources for Investment Services are stable. Liquidity risk within this segment is primarily limited to maintaining sufficient capital levels to obtain securities lending liquidity to support margin borrowing by customers.

International Tax Operations: International Tax Operations provided \$16.3 million in cash from operating activities during the quarter primarily due to higher earnings during the Australian tax season and collections of receivables from Revenue Canada related to its discounted return program.

International Tax Operations are generally self-funded. Cash balances are held in Canada, Australia and the United Kingdom independently in local currencies. H&R Block Canada has a commercial paper program up to \$125 million (Canadian). At October 31, 2003, there was no commercial paper outstanding.

CAPITAL RESOURCES

Cash used in operating activities totaled \$463.4 million for the six months ended October 31, 2003, compared with \$349.8 million for the six months ended October 31, 2002.

Cash expenditures during the six months ended October 31, 2003 relating to investing and financing activities include the purchase of property and equipment (\$43.6 million), payments on acquisition debt (\$45.1 million), payment of dividends (\$68.1 million), payments related to business acquisitions (\$123.3 million) and the acquisition of treasury shares (\$178.8 million).

Cash and cash equivalents — restricted totaled \$571.2 million at October 31, 2003. HRBFA held \$527.1 million of this total segregated in a special reserve account for the exclusive benefit of customers pursuant to Rule 15c3-3 of the Securities Exchange Act of 1934. Restricted cash held by Mortgage Operations totaled \$32.6 million at October 31, 2003 as a result of cash held for outstanding commitments to fund mortgage loans. Restricted cash of \$11.5 million at October 31, 2003 held by Business Services is related to funds held to pay payroll taxes on behalf of its clients.

On September 12, 2001, the Company's Board of Directors authorized the repurchase of 15 million shares of common stock. On June 11, 2003 the Company's Board of Directors approved an authorization to repurchase up to 20 million additional shares of its common stock. During the first half of fiscal year 2004, the Company purchased 4.1 million shares pursuant to these authorizations at an aggregate price of \$177.6 million, or an average price of \$42.99 per share. There are approximately 17.8 million shares remaining under the June 2003 authorization at October 31, 2003. The Company plans to continue to purchase its shares on the open market in accordance with this authorization, subject to various factors including the price of the stock, the ability to maintain progress toward a capital structure that will support a single A rating, the availability of excess cash, the ability to maintain liquidity and financial flexibility, compliance with securities laws and other investment opportunities available.

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OFF-BALANCE SHEET FINANCING ARRANGEMENTS

The Company has commitments to fund mortgage loans in its pipeline of \$3.2 billion at October 31, 2003, subject to contract verification. External market forces impact the probability of loan commitments being closed, and therefore, total commitments outstanding do not necessarily represent future cash requirements. If the loan commitments are exercised, they will be funded through the Company's off-balance sheet arrangements.

For the six months ended October 31, 2003, the final disposition of loans was 33% securitizations and 67% third-party whole loan sales. For the six months ended October 31, 2002, the final disposition of loans was 43% securitizations and 57% third-party whole loan sales.

In the second quarter of fiscal year 2004, the warehouse facilities utilized by the Trusts were increased to \$5.0 billion. An additional \$1.0 billion facility was added that expires in August 2004 and bears interest at one-month LIBOR plus 50 to 60 basis points. This facility is subject to similar performance triggers, limits and financial covenants as the other facilities. In November 2003, two of the existing \$1.5 billion facilities were increased to \$2.0 billion each, which increased the total warehouse facilities to \$6.0 billion.

The Financial Accounting Standards Board (FASB) has decided to reissue its exposure draft, "Qualifying Special Purpose Entities and Isolation of Transferred Assets, an Amendment of FASB Statement No. 140," during the first quarter of calendar year 2004. The purpose of the proposal is to provide more specific guidance on the accounting for transfers of financial assets to a QSPE.

Provisions in the first exposure draft, if adopted, may have required the Company to consolidate its current QSPFs (the Trusts) established in its Mortgage Operations segment. As of October 31, 2003, the Trusts had assets and liabilities of \$3.8 billion. The provisions of the exposure draft are subject to FASB due process and are subject to change. The Company will continue to monitor the status of the exposure draft, and consider changes to current structures to comply with the proposed rules.

There have been no other material changes in the Company's off-balance sheet financing arrangements from those reported at April 30, 2003 in the Company's Annual Report on Form 10-K.

COMMERCIAL PAPER ISSUANCE

The Company participates in the United States and Canadian commercial paper markets to meet daily cash needs. Commercial paper is issued by BFC and H&R Block Canada, Inc., wholly owned subsidiaries of the Company.

The Company incurs short-term borrowings throughout the year primarily to fund seasonal working capital needs, dividend payments and purchases of treasury stock. Because of the seasonality of its businesses, the Company has historically had short-term borrowings throughout

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the year. Borrowings of \$124.6 million were outstanding at October 31, 2003, compared with \$181.6 million at October 31, 2002.

U.S. commercial paper issuances are supported by an unsecured committed line of credit (CLOC) from a consortium of twenty-four banks. The \$2.0 billion CLOC is subject to annual renewal in August 2004 and has a one-year term-out provision with a maturity date in August 2005. This line is subject to various affirmative and negative covenants. This CLOC includes \$1.5 billion for CP back-up and general corporate purposes and \$500 million for working capital use, general corporate purposes and CP back-up. The CLOC was undrawn at October 31, 2003.

The Canadian issuances are supported by a credit facility provided by one bank in an amount not to exceed \$125 million (Canadian). This line is subject to a minimum net worth covenant. The Canadian CLOC is subject to annual renewal in December 2003. The CLOC was undrawn at October 31, 2003.

Management believes the commercial paper market is stable. Risks to the stability of the Company's commercial paper market participation would be a short-term rating downgrade, adverse changes in the Company's financial performance, non-renewal or termination of the CLOCs, adverse publicity and operational risk within the commercial paper market. Management believes if any of these events were to occur, the CLOCs, to the extent available, could be used for an orderly exit from the commercial paper market, though at a higher cost to the Company. Additionally, the Company could turn to other sources of liquidity, including cash, debt issuance under the existing shelf registration and asset sales or securitizations.

CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS

In fiscal year 2000, HRB Royalty, Inc. (HRB Royalty), a wholly owned subsidiary of the Company, placed most of its major franchises on notice that it would not be renewing their respective franchise agreements as of the next renewal date. The agreements have expired or will expire on varying dates in fiscal years 2004 and 2005. Pursuant to the terms of the applicable franchise agreements, HRB Royalty must pay the major franchisee a "fair and equitable price" for the franchise business and such price shall not be less than eighty percent of the franchisee's revenues for the most recent twelve months ended April 30, plus the value of equipment and supplies, and certain off-season expenses.

During the six months ended October 31, 2003, franchise agreements of twelve major franchisees expired and subsidiaries of the Company began operating tax preparation businesses as company-owned operations in the franchise territories of ten former major franchisees. With respect to the two other franchisees with expired franchise agreements, one franchisee entered into a new franchise agreement with a limited term and one franchisee continued litigation challenging the expiration of the franchise agreement. Cash payments of \$118.8 million were made or accrued related to these former major franchises during the six months ended October 31, 2003.

In August 2003, a subsidiary of the Company entered into a transaction with one of the former major franchisees whose franchise agreements expired in the first quarter, pursuant to which such subsidiary acquired the stock of the franchisee and the franchisee released the Company and its

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affiliates from any further liability regarding additional payments under the major franchise agreements. With the exceptions of the former franchisee that executed a release and the franchisee that entered into a new franchise agreement, the court will determine if any additional payments are required for these franchise businesses. The first trial relating to one major franchisee was held in October 2003. At the conclusion of this trial, the jury rendered a verdict and the court entered a judgment requiring the Company to make an additional payment of \$3.2 million for the franchise business. As of October 31, 2003, the Company recorded this liability in accounts payable, accrued expenses and other on the condensed consolidated balance sheet. The original payment for the franchise business made in the first quarter of fiscal year 2004 was \$5.0 million. The outcome of the trial is subject to post-trial motions and possible appeals.

In light of the continuing litigation and possible negotiation with the former major franchisees, there is no certainty regarding the ultimate amount of payments or that subsidiaries of the Company will commence operations in all of the remaining former major franchise territories. Moreover, it is possible that HRB Royalty and certain former franchisees could agree to other arrangements, some of which may not require payments for the franchise businesses or any related assets.

There have been no other material changes in the Company's contractual obligations and commercial commitments from those reported at April 30, 2003 in the Company's Annual Report on Form 10-K.

REGULATORY ENVIRONMENT

Certain state laws restrict or prohibit prepayment penalties on mortgage loans, and the Company relied on the federal Alternative Mortgage Transactions Parity Act (Parity Act) and related rules issued in the past by the Office of Thrift Supervision (OTS) to preempt state limitations on prepayment penalties. The Parity Act was enacted to extend to financial institutions, other than federally chartered depository institutions, the federal preemption that federally chartered depository institutions enjoy. However, in September 2002, the OTS released a new rule that reduced the scope of the Parity Act preemption effective July 1, 2003 and, as a result, the Company can no longer rely on the Parity Act to preempt state restrictions on prepayment penalties. The elimination of this federal preemption requires compliance with state restrictions on prepayment penalties. These restrictions prohibit the Company from charging any prepayment penalty in six states and restrict the amount or duration of prepayment penalties that the Company may impose in an additional eleven states. This places the Company at a competitive disadvantage relative to financial institutions that continue to enjoy federal preemption of such state restrictions. Such institutions can charge prepayment penalties without regard to state restrictions and, as a result, may be able to offer loans with interest rate and loan fee structures that are more attractive than the interest rate and loan fee structures that the Company is able to offer. It is estimated that the net impact to Mortgage Operations will be a reduction in revenues of approximately \$35.0 million in fiscal year 2004 as a result of the elimination of prepayment penalties.

The United States, various state, local, provincial and foreign governments and some self-regulatory organizations have enacted statutes and ordinances, and/or adopted rules and

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regulations, regulating aspects of the businesses in which the Company's subsidiaries are involved, including, but not limited to, commercial income tax return preparers, income tax courses, the electronic filing of income tax returns, the facilitation of refund anticipation loans, loan originations and assistance in loan originations, mortgage lending, privacy, consumer protection, franchising, sales methods, brokers, broker-dealers and various aspects of securities transactions, financial planners, investment advisors, accountants and the accounting practice. The Company's subsidiaries seek to determine the applicability of such statutes, ordinances, rules and regulations (collectively, Laws) and comply with those Laws that apply to their activities. From time to time in the ordinary course of business, the Company and its subsidiaries receive inquiries from governmental and self-regulatory agencies regarding the applicability of Laws to the products and services offered by the Company's subsidiaries. In response to past inquiries, the Company's subsidiaries have agreed to comply with such Laws, convinced the authorities that such Laws were not applicable or that compliance already exists, and/or modified such subsidiaries' activities in the applicable jurisdiction to avoid the application of all or certain parts of such Laws. The Company's management believes that the past resolution of such inquiries and its ongoing compliance with Laws have not had a material adverse effect on the consolidated financial statements of the Company and its subsidiaries. The Company cannot predict what effect future Laws, changes in interpretations of existing Laws, or the results of future regulator inquiries with respect to the applicability of Laws may have on the Company's subsidiaries, the consolidated financial statements of the Company and its subsidiaries.

FORWARD-LOOKING INFORMATION

The information contained in this Form 10-Q and the exhibits hereto may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Such statements are based upon current information, expectations, estimates and projections regarding the Company, the industries and markets in which the Company operates, and management's assumptions and beliefs relating thereto. Words such as "will," "plan," "expect," "remain," "intend," "estimate," "approximate," and variations thereof and similar expressions are intended to identify such forward-looking statements. These statements speak only as of the date on which they are made, are not guarantees of future performance, and involve certain risks, uncertainties and assumptions that are difficult to predict. Therefore, actual outcomes and results could materially differ from what is expressed, implied or forecast in such forward-looking statements. Such differences could be caused by a number of factors including, but not limited to, the uncertainty of laws, legislation, regulations, supervision and licensing by Federal, state and local authorities and self-regulatory organizations and their impact on any lines of business in which the Company's subsidiaries are involved; unforeseen compliance costs; the uncertainty that the Company will achieve or exceed its revenue, income and earnings per share growth goals and expectations for fiscal year 2004; the uncertainty that actual fiscal year 2004 financial results will fall within the guidance provided by the Company; the uncertainty that the growth rate for mortgage originations in the Mortgage Operations segment will equal or exceed the growth rate experienced in fiscal year 2003 or the first and second quarters of fiscal year 2004; the uncertainty as to the effect on the consolidated financial statements of the adoption of accounting pronouncements; risks associated with sources of liquidity for each of the lines of business of the Company; changes in interest rates; changes in economic, political or regulatory environments; changes in competition and the effects of such

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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; the uncertainty of assumptions utilized to estimate cash flows from residual interests in securitizations and mortgage servicing rights; the uncertainty of assumptions and criteria used in the testing of goodwill and long-lived assets for impairment; litigation involving the Company and its subsidiaries; the uncertainty as to the outcome of any litigation; the uncertainty as to the timing or cost of commencement of operations in former major franchise territories or the fair and equitable price to be paid for any major franchise business; 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.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes in market risk from those reported at April 30, 2003 in the Company's Annual Report on Form 10-K.

CONTROLS AND PROCEDURES

Disclosure controls and procedures are controls and other procedures that are designed to ensure information required to be disclosed in reports filed or submitted under the Securities Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure such information is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer or persons performing similar functions, as appropriate, to allow timely decisions regarding required disclosures.

In conjunction with management, including the Chief Executive Officer and Principal Accounting Officer, the Company has evaluated the effectiveness of the design and operation of its disclosure controls and procedures as of the end of the period covered by this quarterly report. Based on this evaluation, the Chief Executive Officer and Principal Accounting Officer have concluded these controls and procedures are effective. There have been no significant changes in internal controls, or in other factors, which would significantly affect these controls subsequent to the date of evaluation.

PART II — OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

RAL Litigation

The Company reported in current reports on Forms 8-K, previous quarterly reports on Form 10-Q and in its annual report on Form 10-K for the year ended April 30, 2003, certain events and information relating to class action litigation and putative class action litigation involving its

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subsidiaries' refund anticipation loan programs (collectively, "RAL Cases"). The Company has defended numerous class action and putative class action lawsuits filed against it involving the RAL program and a variety of legal theories asserted by plaintiffs. The amounts claimed in these lawsuits have been substantial in some instances. Of the cases that are no longer pending, some were dismissed on the Company's motions for dismissal or summary judgment, some were dismissed voluntarily by the plaintiffs after a denial of class certification, and some were settled. Two RAL Cases involving statewide classes (discussed below) had final trial court approvals of settlements during the first six months of fiscal year 2004 and two other RAL Cases were dismissed in August 2003 in connection with one of those settlements. One new putative class action RAL Case was filed in August 2003. The Company continues to believe it has meritorious defenses to the RAL Cases and intends to defend the remaining RAL Cases vigorously. However, there can be no assurances as to the outcome of the pending RAL Cases individually or in the aggregate, and there can be no assurances on and the impact of the RAL Cases on the Company's financial position. The following is updated information regarding the pending RAL Cases in which developments occurred during or after the three months ended October 31, 2003:

Ronnie and Nancy Haese, et al. v. H&R Block Inc., et al., Case No. CV96-4213, District Court of Kleberg County, Texas, ("Haese I") and *Ronnie and Nancy Haese, et al. v. H&R Block Inc., et al.*, Case No. CV-99-314-D, District Court of Kleberg County, Texas ("Haese II"), filed originally as one action on July 30, 1996. On November 19, 2002, the Company announced that a settlement had been reached pursuant to which the Company and its major franchisees will issue coupons to class members that may be redeemed over a five-consecutive-year period following final approval of the settlement and once all appeals have been exhausted. Each class member will receive a packet containing 15 coupons under the settlement. Three coupons will be redeemable each year — one for a \$20 rebate on tax preparation or electronic filing services at Block offices, one that may be redeemed for TaxCut Platinum tax preparation software (or a product of equivalent value), and one that may be redeemed for *Tax Planning Advisor*, a tax planning book (or a product of equivalent value). The settlement also provides that defendants will be responsible for the payment of court-approved legal fees up to \$49 million and expenses of class counsel up to \$900,000. As a result of the settlement announcement, the Company recorded a liability and pretax expense of \$41.7 million during the second quarter of fiscal year 2003, which represented, at that time, the Company's best estimate of its share of the settlement cost for plaintiff class attorneys' fees and expenses, tax products and associated mailing expenses. The Company paid the award of \$49.9 million of attorneys' fees and expenses to class counsel on August 22, 2003. During the fourth quarter of fiscal year 2003 and prior to the filing of the final settlement agreement with the court and any motions for approval of the settlement and legal fees and expenses of class counsel, the plaintiffs had filed a motion asking the Texas court to direct that \$26 million of awarded class counsel fees be paid to the plaintiff class members. A hearing on the final approval of the settlement agreement was held on June 24, 2003, and the judge entered a final judgment on June 24, 2003 fully and finally approving the settlement agreement, finding it fair, adequate and reasonable and that it protects the rights of the class, is in the best interests of the settlement class and meets all criteria required by Texas law. As a part of the final judgment, the court also (1) dismissed with prejudice the claims of class members who obtained RALs in Texas during the period from 1992 through 1996; (2) granted defendants' Supplemental Motion for Summary Judgment as to class members who only

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obtained RALs from 1988 through 1991, and ordered that such defendants take nothing on their claims against the defendants; (3) granted defendants' Motion to Compel Arbitration as to those members of the class who obtained a RAL for the first time from 1997 to 2002, and dismissed the claims of those class members without prejudice as to those members' rights to pursue those claims through binding arbitration; (4) vacated its January 30, 1998 Order pertaining to arbitration clauses and contacts with the class; and (5) withdrew its rulings as to fiduciary duty, breach or the nature of the breach thereof, and for forfeiture as reflected in the Court's November 6, 2002 letter. In a separate Order dated June 24, 2003, the Court found that the awarding of attorneys' and expenses was appropriate and ordered that class counsel and objectors' class counsel be awarded attorneys' fees in the amount of \$49.0 million on condition that, upon payment of the fees to class counsels' trust account, class counsel shall pay \$26.0 million of the attorneys' fees to the class members pursuant to an approved distribution plan. The Order also provided that \$100,000 from the award of attorneys' fees be used to create a cy pres fund pursuant to an approved cy pres plan and specified the manner in which the remaining award of attorneys' fees was to be distributed among the class counsel and objectors' class counsel. There were no appeals of such final judgment and Order relating to attorneys' fees and expenses. In addition to the liability that has already been recorded and/or paid, the Company will reduce revenues associated with tax preparation services as the coupons are redeemed each year. Distribution of the settlement coupons was made following the end of the second quarter.

Haese II arose from plaintiffs' splitting off some claims from *Haese I* and, in connection with the settlement of *Haese I*, the case was dismissed on August 20, 2003.

Veronica I. Martinez, et al. v. H&R Block, Inc., et al., Case No. 02-3629-E in the District Court of Nueces County, Texas, was dismissed on August 20, 2003, in accordance with the settlement agreement involved in the settlement of *Haese I*.

Lynne A. Carnegie, et al. v. Household International, Inc., H&R Block, Inc., et al., (formerly *Joel E. Zawikowski, et al. v. Beneficial National Bank, H&R Block, Inc., Block Financial Corporation, et al.*) Case No. 98 C 2178, United States District Court for the Northern District of Illinois, Eastern Division. On April 15, 2003, the District Court judge declined to approve a \$25 million settlement of this matter, finding that counsel for the settlement plaintiffs had been inadequate representatives of the plaintiff class and failed to sustain their burden of showing that the settlement was fair. The judge appointed new counsel for the plaintiffs in May 2003 and named their client, Lynne Carnegie, as lead plaintiff. The new counsel for the plaintiffs filed an amended complaint and a motion for partial summary judgment during the quarter ended July 31, 2003. The defendants filed a motion to dismiss, a brief in response to allegations in the plaintiffs' amended complaint relating to class certification, and responses to plaintiffs' motion for partial summary judgment. Extensive discovery is proceeding. In the fourth quarter of fiscal year 2003, the Company recorded a receivable in the amount of its \$12.5 million share of the settlement fund and recorded a reserve of \$12.5 million consistent with the existing settlement authority of the Board of Directors. The defendants requested the release of the escrowed settlement fund and the Company's \$12.5 million share of such fund was received during the second quarter of fiscal year 2004. The Company intends to defend the case vigorously and there are no assurances that the matter will result in a settlement or as to the amount of any settlement.

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Belinda Peterson, et al. v. H&R Block Tax Services, Inc., Case No. 95CH2389, in the Circuit Court of Cook County, Illinois. A settlement was reached in April 2003 involving an estimated maximum total amount of \$295,000. As a part of the settlement, class members who submit a claim will receive \$25 in cash, with a guaranteed minimum total payout of \$40,000 and a maximum total payout of \$55,000. Class counsel will receive \$220,000, the named class representative will receive \$5,000, and it is expected that it will cost up to \$15,000 to administer the settlement. Preliminary approval of the settlement was granted on June 12, 2003 and notices of the settlement and claim forms have been sent to the class. The settlement was approved and a judgment entered after a final fairness hearing held in October 2003.

Levon and GERAL Mitchell, et al. v. H&R Block and Ruth K. Wren, Case No. CV-95-2067, in the Circuit Court of Mobile County, Alabama. The court granted plaintiffs' motion for class certification during the quarter ended July 31, 2003, and the defendants filed their notice of appeal regarding such certification on August 14, 2003.

Roy Carbajal, et al. v. H&R Block Tax Services, Inc., et al., Case No. 00C-0626 in the United States District Court for the Northern District of Illinois. The defendants' motion to compel arbitration was granted on September 16, 2003, and the case was dismissed. Plaintiffs have appealed.

Abby Thomas, et al. v. Beneficial National Bank, H&R Block, Inc., et al., Case No. 4:03-CV-00775 GTE in the United States District Court for the Eastern District of Arkansas, Western Division, was originally filed in the Circuit Court for Phillips County, Arkansas on August 12, 2003, and was subsequently removed to federal court. It is a putative class action alleging fraudulent misrepresentation, fraudulent concealment, dual agency, breach of fiduciary duty, violation of Arkansas Deceptive and Unconscionable Trade Practices Law, violation of Arkansas' Secret Payments or Allowance of Rebates and Refunds Law, unjust enrichment, breach of contract and deceit in connection with the RAL program. The complaint requests that the court certify a nationwide class of all persons who obtained a RAL from September 1987 through December 1997, who do not have an arbitration provision in their contract. It also seeks a subclass of class members who are 60 years of age or older, or who are Disabled Persons under Arkansas Statutes section 4-88-201. Plaintiffs seek an unspecified amount of damages, restitution, equitable relief, attorneys' fees, and costs of court. Defendants have moved to dismiss and compel arbitration. Plaintiffs thereafter filed an amended complaint and a motion to remand the case to state court. On December 8, 2003, the federal court denied plaintiffs' motion to remand.

Dennis J. Smith v. H&R Block, et al., Case No. 3:03CV7181 in the United States District Court for the Northern District of Ohio, Western Division. The Company was not served with the original complaint filed in the matter. The Company was served with an amended complaint in November 2003, alleging RICO violations, fraud, breach of fiduciary duties, negligence, conversion, and violation of Ohio consumer fraud statutes as a result of the wrongful deprivation of all or part of plaintiff's tax refunds under the "Rapid Refund" program. The complaint generally alleges violations of the Fair Debt Collection Practices Act and appears to relate to the

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cross-collection of prior RAL debt by banks involved in the RAL program or the refund anticipation check program. The amended complaint does not include any class allegations.

Shareholder Matter

Paul White, et al. v. H&R Block, et al., consolidated Case Numbers 02CV8965, 02CV9661, 02CV9682 and 02CV9830, respectively, in the United States District Court for the Southern District of New York, involves four cases in which the respective named plaintiffs seek to represent a class of shareholders who purchased the Company's stock between November 8, 1997 and November 6, 2002, and allege that the Company and certain of its current and former officers and directors violated Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder by failing to disclose to shareholders various cases in which the Company had been sued regarding the RAL program, by failing to set adequate reserves for those cases, and by failing to disclose the supposed implications of those cases for the future of the RAL program. The four securities law cases were all assigned to the same judge and consolidated for pre-trial matters. A consolidated complaint was filed in March 2003 and the defendants responded by filing a motion to dismiss in April 2003. In response to defendants' motion to dismiss, plaintiffs informed defendants that they desired further to amend their complaint. Defendants consented to the filing of an amended complaint as a pleading matter, the plaintiffs filed the amended complaint, and the defendants filed a motion to dismiss it in August 2003. The Company believes the claims in these actions are without merit and intends to defend them vigorously.

Peace of Mind Litigation

Lorie J. Marshall, et al. v. H&R Block Tax Services, Inc., et al., Civil Action 2002L000004, in the Circuit Court of Madison County, Illinois, is a class action case filed on January 18, 2002, as to which the court granted plaintiffs' first amended motion for class certification on August 27, 2003. Plaintiffs' claims consist of five counts relating to the defendants' Peace of Mind program under which the applicable tax return preparation subsidiary assumes liability for the cost of additional tax assessments attributable to tax return preparation error. The plaintiffs allege that defendants' sale of its Peace of Mind guarantee constitutes statutory fraud by selling insurance without a license, an unfair trade practice, by omission and by "cramming" (i.e., charging customers for the guarantee even though they did not request it and/or did not want it), and constitutes a breach of fiduciary duty. A hearing on the motion to certify both a nationwide plaintiff class and a nationwide defendant class was held on August 14, 2003, and, on August 27, 2003, the court certified the following plaintiff classes: (1) all persons who were charged a separate fee for Peace of Mind by "H&R Block" or a defendant H&R Block class member from January 1, 1997 to final judgment; (2) all persons who reside in certain class states and who were charged a separate fee for Peace of Mind by "H&R Block," or a defendant H&R Block class member, and that was not licensed to sell insurance, from January 1, 1997 to final judgment; and (3) all persons who had an unsolicited charge for Peace of Mind posted to their bills by "H&R Block" or a defendant H&R Block class member from January 1, 1997, to final judgment. Among those excluded from the plaintiff classes are all persons who received the Peace of Mind guarantee through an H&R Block Premium office and all persons who reside in Texas and Alabama. The court also certified a defendant class consisting of any entity with the names

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"H&R Block" or "HRB" in its name, or otherwise affiliated or associated with H&R Block Tax Services, Inc., and which sold or sells the Peace of Mind product. Defendants have filed a motion asking the trial court to certify the class certification issues for interlocutory appeal.

There are two other putative class actions pending against the Company in Texas and Alabama that involve the Peace of Mind guarantee. The Texas case involves the same attorneys for the plaintiffs as are involved in the *Marshall* litigation in Illinois and substantially similar allegations. The Alabama case involves allegations of selling insurance without of license in connection with the Peace of Mind program, the erroneous preparation of income tax returns that subjected plaintiffs to audits, failure to provide assistance in responding to auditors' requests, failure to pay the penalties, interest, and additional taxes under Block's standard guarantee and Peace of Mind programs, unjust enrichment, and breach of contract. No classes have been certified in either of these two cases. The Company believes the claims in these Peace of Mind actions are without merit and intends to defend them vigorously. However, there can be no assurances as to the outcome of these pending actions individually or in the aggregate, and there can be no assurances on the impact of these actions on the Company's financial condition.

Franchise Litigation

The Company is a named defendant in litigation entitled *William R. Smith, Inc., et al. v. H&R Block, Inc., et al.*, Case No. 99-CV-206379, pending in the Circuit Court of Jackson County, Missouri (previously known as *Armstrong Business Services, Inc., et al. v. H&R Block, Inc., et al.*). The action was filed by certain "major" franchisees against the Company and certain of its subsidiaries relating to alleged breaches of contract and other matters. The Company's subsidiary, HRB Royalty, Inc., the franchisor under the applicable franchise agreements, filed a counterclaim and subsequently a motion for summary judgment seeking a declaration that HRB Royalty, Inc. could elect not to renew the major franchise agreements when their present five-year terms came to an end. Such motion for summary judgment was granted in March 2001 and upheld on appeal. HRB Royalty notified the plaintiff major franchisees in 2000 that it did not intend to renew their franchise agreements at the expiration of the current renewal terms and that the agreements would terminate at that time. The renewal dates vary among the franchisees. Pursuant to the franchise agreements, HRB Royalty must pay a "fair and equitable price" to the franchisee for franchisee's franchise business, and such price must be no less than 80% of the franchisee's revenues for the most recent 12 months ended April 30, plus the value of equipment and supplies, and certain off-season expenses. The Circuit Court ruled in May 2003 that major franchise agreements with renewal terms scheduled to expire prior to July 1, 2003, will expire on July 1, 2003, and other major franchise agreements will expire as their renewal terms expire commencing in September 2003 and ending in fiscal year 2005. The Court ordered defendants to pay for the franchise businesses as provided in the franchise agreements on the applicable dates of expiration. During the six months ended October 31, 2003, franchise agreements of twelve major franchisees expired and subsidiaries of the Company began operating tax preparation businesses as company-owned operations in the franchise territories previously operated by ten former major franchisees. Cash payments of \$118.8 million were made or accrued related to these former major franchise businesses during the six months ended October 31, 2003. In August 2003, a subsidiary of the Company entered into a transaction with one of the major franchisees whose franchise agreements had expired in the first quarter, pursuant to which such

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subsidiary acquired the stock of the franchisee and the franchisee released the Company and its affiliates from any further liability regarding additional payments under the major franchise agreements. In addition, during the first quarter of fiscal year 2004, a Company subsidiary and one major franchise entered into a new franchise agreement with a limited term and a release of the Company and its affiliates from any liability in the litigation, including any liability regarding payments for the franchise business under the prior major franchise agreement. With the exception of the franchisees that have executed releases and the franchisee that entered into a new franchise agreement, the court will determine if any additional payments are required for these franchise businesses. There is no certainty as to the timing and final cost of commencement of operations in the former major franchise territories or the payments of fair and equitable prices for the franchise businesses.

In *Smith*, plaintiffs' claims against the Company and its subsidiaries remain in the trial court. In their second amended petition, the plaintiffs seek in excess of \$20 million in actual damages, punitive damages, unspecified statutory damages, declaratory, injunctive and other relief, including attorneys' fees under allegations of breach of contract, breach of the covenant of good faith and fair dealing, unfair business practices, state anti-trust violations, breach of fiduciary duty, prima facie tort, violations of various state franchise statutes, fraud and misrepresentation, waiver and estoppel, ambiguity and reformation, relief with respect to a post-termination covenant not to compete in the franchise agreements, and a request for a fair and equitable payment upon nonrenewal of the franchise agreements. The major franchisees allege, among other things, that the sale of TaxCut income tax return preparation software and online tax services and the purchase of accounting firms encroached on their exclusive franchise territories. The defendants believe that the allegations against them are without merit and continue to defend the case vigorously. Management believes that amounts, if any, required to be paid by the Company and its subsidiaries in the discharge of liabilities or settlements relating to these claims of the plaintiffs in this litigation will not have a material adverse effect on the Company's consolidated results of operations, cash flows or financial position.

The trial involving one of the plaintiffs in the *Smith* litigation took place in October 2003 and involved the issues relating to that plaintiff's claims against the Company and to determine if any additional payments are required to provide the former franchisee with a fair and equitable price for the franchise business. The jury rendered a verdict of \$0.9 million in favor of the plaintiff on the plaintiff's claims against the Company and a verdict of \$3.2 million with respect to additional payments for the franchise business. A subsidiary of the Company had made a payment of \$5.0 million to such plaintiff as payment for the franchise business in the first quarter of fiscal year 2004. The outcome of the trial is subject to post-trial motions and possible appeals. The next trial to take place as part of the *Smith* litigation is scheduled for May 2004.

Other Claims and Litigation

The Company and its subsidiaries have from time to time been party to claims and lawsuits not discussed herein arising out of its business operations, including additional claims and lawsuits concerning RALs and the Peace of Mind guarantee program, and claims and lawsuits concerning the preparation of customers' income tax returns, the electronic filing of customers' tax returns, the fees charged customers for various products and services, losses incurred by customers with

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respect to their investment accounts, relationships with franchisees, denials of mortgage loans, contested mortgage foreclosures, other aspects of the mortgage business, intellectual property disputes, and contract disputes. Such lawsuits include actions by individual plaintiffs, as well as cases in which plaintiffs seek to represent a class of similarly situated customers. The amounts claimed in these claims and lawsuits are substantial in some instances and the ultimate liability with respect to such litigation and claims is difficult to predict. The Company's management considers these cases to be ordinary, routine litigation incidental to its business, believes and Company and its subsidiaries have meritorious defenses to each of them, and is defending, or intends to defend, them vigorously. While management cannot provide assurance that the Company and its subsidiaries will ultimately prevail in each instance, management believes that amounts, if any, required to be paid by the Company and its subsidiaries in the discharge of liabilities or settlements in these other matters will not have a material adverse effect on the Company's consolidated results of operations or financial position.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

The annual meeting of shareholders of the registrant was held on September 10, 2003. At such meeting, three Class II directors were elected to serve three-year terms. In addition, the proposals set forth below were submitted to a vote of shareholders. With respect to the election of directors and the adoption of each proposal, the number of votes cast for, against or withheld, the number of abstentions, and the number of no votes (if applicable) were as follows:

Election of Class II Directors

<u>Nominee</u>	<u>Votes FOR</u>	<u>Votes WITHHELD</u>
G. Kennerh Baum	154,492,796	1,939,685
Henry F. Frigon	150,062,319	6,370,162
Roger W. Hale	152,902,523	3,529,958

Approvals of an Amendment to the 2003 Long-Term Executive Compensation Plan

Votes For:	142,940,871
Votes Against:	12,792,495
Abstain:	699,113

Ratification of the Appointment of KPMG LLP as the Registrant's Independent Accountants for the year ended April 30, 2004

Votes For:	151,578,294
Votes Against:	4,509,546
Abstain:	344,641

At the close of business on July 8, 2003, the record date for the annual meeting of shareholders, there were 180,313,591 shares of Common Stock of the registrant outstanding and entitled to vote at the meeting. There were 156,432,481 shares represented at the annual meeting of shareholders held on September 10, 2003.

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ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.

a) Exhibits

10.1	Separation Agreement dated September 4, 2003 between HRB Management, Inc. and Frank J. Cotroneo.
10.2	2003 Long-Term Executive Compensation Plan (as amended September 10, 2003)
31.1	Certification by Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification by Principal Accounting Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification by Chief Executive Officer furnished pursuant to 18 U.S.C. 1350, as adopted by Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification by Principal Accounting Officer furnished pursuant to 18 U.S.C. 1350, as adopted by Section 906 of the Sarbanes-Oxley Act of 2002.

b) Reports on Form 8-K

The registrant filed a current report on Form 8-K dated August 27, 2003, reporting under Item 12 thereof its issuance of a press release announcing the results of operations for its first quarter ending July 31, 2003.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

H&R BLOCK, INC.

(Registrant)

DATE	<u>12/10/03</u>	BY	<u>/s/ Mark A. Ernst</u> Mark A. Ernst Chairman of the Board, President and Chief Executive Officer
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DATE	<u>12/10/03</u>	BY	<u>/s/ Melanie K. Coleman</u> Melanie K. Coleman Vice President and Corporate Controller
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Exhibit Index

<u>Exhibit No.</u>	<u>Description</u>
10.1	Separation Agreement dated September 4, 2003 between HRB Management, Inc. and Frank J. Cotroneo.
10.2	2003 Long-Term Executive Compensation Plan (as amended September 10, 2003)
31.1	Certification by Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification by Principal Accounting Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification by Chief Executive Officer furnished pursuant to 18 U.S.C. 1350, as adopted by Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification by Principal Accounting Officer furnished pursuant to 18 U.S.C. 1350, as adopted by Section 906 of the Sarbanes-Oxley Act of 2002.

TERMINATION AGREEMENT

THIS TERMINATION AGREEMENT (the "Agreement") is entered into as of the 3rd day of September, 2003, by and between HRB Management, Inc., a Missouri corporation ("HRB"), and Frank J. Cotroneo ("Cotroneo").

ARTICLE ONE

TERMINATION OF EMPLOYMENT

1. Mutual Agreement to Terminate Employment Agreement. HRB and Cotroneo acknowledge and agree that they are parties to an Employment Agreement dated January 26, 2000 (the "Employment Agreement"), and that they desire to terminate Cotroneo's employment under the Employment Agreement by this Agreement. The parties agree that such termination of employment is mutual and shall not be considered a termination for or without "cause" or for "good reason" (as such terms are defined in the Employment Agreement), except as noted for the sole purpose described in Section 4(a)(iii) of this Agreement. Such employment and the Employment Agreement will terminate effective as of the close of business on October 31, 2003, or such earlier date as is mutually agreed upon by the parties in writing (the "Termination Date"). By this Agreement, the parties agree to waive any notice of termination required by the Employment Agreement.

2. Surviving Obligations. Notwithstanding the above, the termination of Cotroneo's employment will not affect the following provisions of the Employment Agreement which, by their express terms as set forth therein, impose continuing obligations on one or more of the parties following termination of the Employment Agreement:

- o Article Two, "Confidentiality," Sections 2.01, 2.02
- o Article Three, "Non-Hiring; No Conflicts; Noncompetition," Sections 3.01, 3.02, 3.04, 3.05
- o Article Four, "Miscellaneous," Section 4.06.

3. Resignation as Officer.

(a) Cotroneo will resign (i) as Senior Vice President and Chief Financial Officer of H&R Block, Inc. ("Block") and (ii) from any and all officer and director positions held with HRB and all other subsidiaries of Block (all such other subsidiaries of Block, collectively "Affiliates" and individually an "Affiliate"). Such resignations will be effective as of the Termination Date, except as provided in Section 3(b) of this Agreement. Cotroneo will execute resignations in the form attached hereto as Exhibit A contemporaneously with his execution of this Agreement.

(b) Cotroneo acknowledges that Block is undertaking a search for a new Chief Financial Officer and, in the event Block is prepared to elect a new Chief Financial Officer prior to the Termination Date, Cotroneo agrees to accelerate his resignation as Senior Vice President and Chief Financial Officer of Block and execute a new resignation effective as of the date Block elects such new Chief Financial Officer. Such accelerated resignation shall have no effect on Cotroneo's continued employment with HRB through the Termination Date.

and shall not provide grounds for Cotroneo to terminate the Employment Agreement for "good reason."

4. Continued Employment: Compensation and Benefits.

(a) In consideration of Cotroneo's promises herein, HRB agrees to continue to employ Cotroneo through the Termination Date, and that Cotroneo will be paid his base salary (at the rate of \$389,000 per year) and benefits as of the date of this Agreement through the Termination Date. Upon Cotroneo's execution of the release agreement attached hereto as Exhibit B (the "Release Agreement") on the Termination Date, HRB will agree to provide the compensation and benefits as follows and as described in the Release Agreement on the terms described therein:

(i) In further consideration for Cotroneo's promises herein, HRB will pay to Cotroneo \$301,476 (which amount represents an aggregate of one-half of Cotroneo's (A) annual base salary and (B) target short-term incentive compensation for HRB's fiscal year 2004, each determined as of the date of this Agreement) over the 6-month period beginning on the Termination Date in semi-monthly equal installments of \$25,123 (less required tax withholdings and elected benefit withholdings). Such payments shall not encompass payment to Cotroneo for any unused vacation or other paid time off accrued as of the Termination Date, payment for which will be made in accordance with HRB's policy as soon as administratively feasible after the Termination Date.

(ii) Cotroneo will remain eligible to participate in those health and welfare plans maintained by HRB offering medical, dental, vision, employee assistance, flexible spending account, life insurance, and accidental death and dismemberment insurance benefits during the 6-month period beginning on the Termination Date on the same basis as employees of HRB, after which Cotroneo may be eligible to continue coverage of those benefits provided under group health plans in accordance with his rights under Section 4980B of the Internal Revenue Code.

(iii) For the limited purpose of permitting Cotroneo to exercise those stock options to purchase shares of Block's common stock granted to Cotroneo by Block ("Stock Options") that are outstanding and exercisable as of the Termination Date, for the first 3 months after the Termination Date, HRB agrees to characterize Cotroneo's termination of employment as a termination of employment by HRB without "cause." Such characterization shall have no effect on the number of Stock Options outstanding and exercisable as of the Termination Date. A list of the Stock Options existing and exercisable as of the date of this Agreement is attached hereto as Exhibit C.

(b) The compensation and benefits described in Section 4(a) of this Agreement will cease and no further compensation and benefits will be provided to Cotroneo under the Release Agreement if Cotroneo knowingly violates any of his post-employment obligations as set forth in Sections 2 and 6 of this Agreement. If Cotroneo unknowingly violates any of his post-employment obligations as set forth in Sections 2 and 6 of this Agreement, Cotroneo agrees to take such actions as are necessary to correct the violation(s) once he is made aware of the violation(s).

(c) The parties agree that, in accordance with Section 1.06(c) of the Employment Agreement, HRB shall have no further financial obligations to Cotroneo under the Employment Agreement and no further payments of base salary or other compensation or benefits shall be payable by HRB to Cotroneo, except (i) as required by the express terms of any written benefit plans or written arrangements maintained by HRB and applicable to Cotroneo as of the Termination Date, (ii) as may be required by law, or (iii) as have been mutually agreed upon between the parties in this Agreement.

(d) Upon Cotroneo's execution of the Release Agreement on the Termination Date, HRB, on behalf of itself, Block, and Affiliates, will on the Termination Date also execute the Release Agreement as provided for therein.

5. Business Expenses: Commitments. HRB will promptly pay directly, or reimburse Cotroneo for, all business expenses to the extent such expenses are paid or incurred by Cotroneo during the term of the Employment Agreement in accordance with HRB's policy in effect from time to time and to the extent such expenses were reasonable and necessary to the conduct by Cotroneo of HRB's business. During the period from the date of this Agreement through the Termination Date and at all times thereafter, Cotroneo will not initiate, make, renew, confirm or ratify any contracts or commitments for or on behalf of Block, HRB or any Affiliate without Block's prior written consent.

6. Cotroneo's Responsibilities.

(a) During the period from the date of this Agreement through the Termination Date, Cotroneo will act in a manner consistent with the standards of conduct and performance he has observed during his employment with HRB and will cooperate with management of Block, HRB and any Affiliate as requested in providing information regarding areas of his expertise and experience with Block. Cotroneo acknowledges that his employment responsibilities may be reduced prior to the Termination Date at HRB's sole discretion and that any such reduction in employment responsibilities shall not provide grounds for Cotroneo to terminate the Employment Agreement for "good reason."

(b) After the Termination Date and for a period of one year thereafter, in the event a (i) claim is asserted against Block, HRB or any Affiliate and/or their respective employees, agents, officers, or directors or (ii) a government investigation is commenced with respect to Block, HRB or any Affiliate and/or their respective employees, agents, officers, or directors, Cotroneo will, without compensation, except for reimbursement for any out-of-pocket expenses, provide reasonable assistance and cooperation with Block, HRB and Affiliates in connection with such a claim or government investigation. Thereafter Cotroneo will similarly assist and cooperate with Block, HRB and/or Affiliates, for which he will be reimbursed for his costs and paid reasonable compensation for his time, as agreed upon by the parties, except in litigation matters where Cotroneo is a named party. In such cases Cotroneo will continue to provide reasonable cooperation, as requested, and will receive reimbursement for his costs, but receive no compensation for his time.

(c) Cotroneo will not at any time or in any manner (i) defame Block, HRB, or any Affiliate or their respective past or present directors and employees, (ii) make disparaging statements to the media, or to any employee or contractor of Block, HRB or any other Affiliate, concerning Block, HRB or any Affiliate, their respective past or present directors

and employees concerning any matter related to his employment or non-employment, or (iii) do any deliberate act designed primarily to injure the business or reputation of Block, HRB or any Affiliate. Nothing in this provision shall be construed to prevent Cotroneo from responding to a subpoena or other lawfully issued summons, or from providing truthful information to any law enforcement or administrative agency or prospective employer; or from making appropriate disclosures to counsel for Block, HRB, or any Affiliate, to Block's external auditors, or to the Audit Committee of the Board of Directors of Block, as to any subject within the scope of Cotroneo's employment. Cotroneo agrees that any information permitted to be provided to a prospective employer pursuant to the prior sentence will not include information required to be held confidential in accordance with his post-employment obligations set forth in Section 2 of this Agreement.

7. HRB's Responsibilities. Neither HRB, Block, any Affiliates, nor any of their senior executive officers or directors will at any time or in any manner (i) defame Cotroneo, (ii) make disparaging statements to the media or to any employee or contractor of HRB, Block or Affiliates regarding Cotroneo, his performance, character, status or any other personal or professional matter, or (iii) do any deliberate act designed in whole or in part to injure, embarrass or damage Cotroneo's reputation, or interfere with his ability to obtain new employment. HRB and Cotroneo agree that HRB will respond to inquiries from Cotroneo's prospective new employers by providing the letter attached hereto as Exhibit D, and will otherwise only act consistently with its then-current practice of providing certain limited information to prospective employers of former employees. Cotroneo agrees that furnishing such letter and complying with such practice shall not constitute interference with his ability to obtain new employment. Nothing in this provision shall be construed to prevent HRB, Block, or any Affiliates from responding to a subpoena or other lawfully issued summons, or from providing truthful information to any law enforcement or administrative agency.

8. Third-Party Beneficiary. The parties hereto agree that Block is a third-party beneficiary as to the obligations imposed upon Cotroneo under the Employment Agreement and this Agreement and as to the rights and privileges to which HRB is entitled pursuant to the Employment Agreement and this Agreement, and that Block is entitled to all of the rights and privileges associated with such third-party-beneficiary status.

9. Successors and Assigns. This Agreement and each of its provisions will be binding upon Cotroneo and the heirs, executors, successors and administrators of Cotroneo or his estate and property, and will inure to the benefit of HRB, Block and their successors and assigns. Cotroneo may not assign or transfer to others the obligation to perform his duties hereunder.

10. Specific Performance. The parties acknowledge that money damages alone will not adequately compensate HRB, Block or Cotroneo for breach of any of the covenants and agreements herein and, therefore, in the event of the breach or threatened breach of any such covenant or agreement by either party, in addition to all other remedies available at law, in equity or otherwise, a wronged party will be entitled to injunctive relief compelling specific performance of (or other compliance with) the terms hereof.

11. Disputes. In the event that after the parties have executed this Agreement, there is a dispute or disagreement between the parties as to the interpretation, implementation or enforcement of any aspect of this Agreement, the parties agree to submit

such dispute or disagreement to non-binding mediation. In the event any such dispute or disagreement is not resolved by mediation, the prevailing party in any subsequent litigation shall be entitled to reimbursement for reasonable legal fees that party expended in the mediation and litigation.

12. Entire Agreement. This Agreement, the Release Agreement (if such Release Agreement is fully executed), and the surviving post-termination obligations of the Employment Agreement constitute the entire agreement and understanding between HRB and Cotroneo concerning the subject matter hereof. No modification, amendment, termination, or waiver of this Agreement will be binding unless in writing and signed by Cotroneo and a duly authorized officer of HRB. Failure of HRB, Block or Cotroneo to insist upon strict compliance with any of the terms, covenants, or conditions hereof will not be deemed a waiver of such terms, covenants, and conditions.

13. Notices. Notices hereunder will be deemed delivered five days following deposit thereof in the United States mail (postage prepaid) addressed to Cotroneo at 11709 High Drive, Leawood, Kansas 66211; and to HRB at 4400 Main Street, Kansas City, Missouri 64111; Attn: Mark A. Ernst, with a copy to James H. Ingraham, Esq., H&R Block, Inc., 4400 Main Street, Kansas City, Missouri 64111; or to such other address and/or person designated by any party in writing to the other parties.

14. Counterparts. This Agreement may be signed in counterparts and delivered by facsimile transmission confirmed promptly thereafter by actual delivery of executed counterparts.

Executed as a sealed instrument under, and to be governed by,
construed and enforced in accordance with, the laws of the State of Missouri.

/s/ Frank J. Cotroneo

Frank J. Cotroneo

Dated: 9/4/03

HRB Management, Inc.
a Missouri corporation

By: /s/ Mark A. Ernst

Mark A. Ernst
President and Chief Executive Officer

Dated: 4 Sept. 03

EXHIBIT A
RESIGNATION

TO: The Board of Directors of [Name of Company]:

Effective October 31, 2003, I hereby resign as [position] of [Name of Company], a [Name of State] corporation.

Dated: -----

Frank J. Cotroneo

EXHIBIT B

RELEASE AGREEMENT

THIS RELEASE AGREEMENT ("this Release Agreement") is entered into as of the 31st day of October 2003, by and between HRB Management, Inc., a Missouri corporation ("HRB"), and Frank J. Cotroneo ("Cotroneo").

WHEREAS, HRB and Cotroneo are parties to an Agreement dated as of September 3, 2003, under which the parties mutually agreed to terminate the Employment Agreement dated January 26, 2000, by and between HRB and Cotroneo (the "Employment Agreement"), and Cotroneo's employment thereunder (the "Termination Agreement").

NOW, THEREFORE, in consideration of the premises and the mutual covenants contained herein, the sufficiency of which is hereby acknowledged, the parties agree as follows:

1. Release by Cotroneo. In consideration of HRB's promise to Cotroneo of the compensation and benefits specified in Section 5 of this Release Agreement and Section 4 of the Termination Agreement, Cotroneo for himself and for his relations, heirs, legal representatives, and assigns unconditionally releases and forever discharges H&R Block, Inc. ("Block"), HRB and each other subsidiary of Block (each such other subsidiary an "Affiliate"), their respective present and past directors, officers, employees, agents, predecessors, successors, and assigns of and from any and all claims, demands, actions, causes of action and suits of any kind whatsoever, whether under federal or state statute, local regulation or at common law or which thereafter arise from any matter, fact, circumstance, event, happening or thing whatsoever occurring or failing to occur prior to the date of this Release Agreement involving Cotroneo's employment by HRB or any Affiliate, including, without limitation, Cotroneo's hiring, compensation earned as of or before the date of this Release Agreement, the termination of Cotroneo's responsibilities as an officer of Block and as a director and/or officer of HRB and each Affiliate, Cotroneo's termination as an employee of HRB, other obligations of Block, HRB or any Affiliate (except for those obligations expressly stated in this Release Agreement, the post-termination provisions of the Employment Agreement or applicable benefit plans), and further including, but not limited to, any claims for race, sex or age discrimination under the Age Discrimination in Employment Act, as amended ("ADEA"), Title VII of the Civil Rights Act of 1964, the 1991 amendments of such Civil Rights Act, the Americans with Disabilities Act, as amended, and all other federal and state statutes and common law doctrines.

2. Release by HRB.

(a) Except as provided in Section 2(b) of this Release Agreement, HRB for itself and for its present and past directors, officers, employees, predecessors, successors, assigns and Affiliates hereby unconditionally releases and forever discharges Cotroneo, his relations, assigns, heirs, legal representatives, of and from any and all claims, demands, actions, causes of action and suits of any kind whatsoever, whether under federal or state statute, local regulation or at common law or which thereafter arise from any matter, fact, circumstance, event, happening or thing whatsoever occurring or failing to occur prior to the date of this

Release Agreement involving Cotroneo's employment by HRB or any Affiliate, and the performance of his responsibilities under the Employment Agreement.

(b) The release described in Section 2(a) of this Release Agreement does not include a release of (i) Cotroneo's obligations under that certain letter dated March 31, 2003, addressed to James H. Ingraham attached hereto as Exhibit 1, and (ii) any claims, demands, actions, causes of action and suits of any kind whatsoever involving acts of fraud, or embezzlement, whether known or unknown as of the date of this Release Agreement. The Company expressly represents that it has no knowledge or belief at this time that Cotroneo engaged in any such conduct.

3. Consideration of Release of ADEA Claims. With regard to the waiver/release of rights or claims under the ADEA, Cotroneo acknowledges and understands that this is a legal document and that he is legally entitled to, and has been offered, a period of twenty-one (21) days (the "Consideration Period") to consider the waiver/release of such rights or claims under this Release Agreement before signing it. After signing this Release Agreement, Cotroneo may revoke the waiver/release of rights or claims under the ADEA by giving written notice ("Revocation Notice") to Mark A. Ernst, 4400 Main Street, Kansas City, Missouri 64111, within seven (7) days after the date of signing (such seven (7) day period, the "Revocation Period" and such date of signing, the "Signing Date"). For such revocation to be effective, the Revocation Notice must be received no later than 5:00 p.m., Kansas City, Missouri time, on the seventh (7th) day after the Signing Date. If Cotroneo provides the Revocation Notice to HRB, this Release Agreement will be null, void and unenforceable by either party, and HRB will have no obligation to make any payments or provide any benefits to Cotroneo hereunder.

4. Acknowledgements. COTRONEO ALSO ACKNOWLEDGES THAT HRB HAS ADVISED HIM TO CONSULT WITH AN ATTORNEY PRIOR TO SIGNING THIS RELEASE AGREEMENT OR BEFORE THE EXPIRATION OF THE REVOCATION PERIOD. COTRONEO SPECIFICALLY ACKNOWLEDGES AND AGREES THAT EITHER THE FULL TWENTY-ONE (21) DAY CONSIDERATION PERIOD HAS LAPSED OR HE HAS BEEN OFFERED SUCH TWENTY-ONE (21) DAY CONSIDERATION PERIOD BUT HAS ELECTED TO WAIVE AND FOREGO ALL OF THE APPLICABLE DAYS WHICH HAVE NOT YET LAPSED IN SUCH TWENTY-ONE (21) DAY CONSIDERATION PERIOD. COTRONEO ACKNOWLEDGES AND AGREES THAT UPON SUCH CONSIDERATION HE HAS DECIDED TO WAIVE AND RELEASE ANY CLAIMS HE MAY HAVE UNDER THE ADEA, PURSUANT TO THE TERMS OF THIS RELEASE AGREEMENT.

5. Compensation and Benefits. The parties agree that Cotroneo will receive the compensation and benefits from HRB after the Termination Date provided for in Sections 4 (a) and (if) of the Termination Agreement.

6. Termination of Compensation and Benefits. The compensation and benefits described in Section 4 of the Termination Agreement will cease and no further compensation and benefits will be provided to Cotroneo under this Release Agreement if Cotroneo knowingly violates any of his obligations under Sections 2 and 6 of the Termination Agreement. If Cotroneo unknowingly violates any of his obligations under Sections 2 and 6 of the Termination Agreement, Cotroneo agrees to take such actions as are necessary to correct the violation(s) once he is made aware of the violation(s).

7. This Release Agreement shall not affect the rights and obligations of the parties under the Termination Agreement.

8. Successors and Assigns. This Release Agreement and each of its provisions will be binding upon Cotroneo and the heirs, executors, successors, and administrators of Cotroneo or his estate and property, and shall inure to the benefit of HRB, Block and their successors and assigns. Cotroneo may not assign or transfer to others the obligation to perform his duties hereunder. Executed as a sealed instrument under, and to be governed by, construed and enforced in accordance with, the laws of the State of Missouri.

Frank J. Cotroneo

Dated: -----

HRB Management, Inc.
a Missouri corporation

By: -----
Mark A. Ernst
President and Chief Executive Officer

Dated: -----

EXHIBIT 1

James H. Ingraham
Senior Vice President and General Counsel
H&R Block, Inc.
4400 Main Street
Kansas City, MO 64111

Re: Undertaking

Dear Mr. Ingraham:

I understand that the Board of Directors of H&R Block, Inc. (the "Company") has determined to indemnify me, to the fullest extent permissible under Missouri law and the Company's Bylaws, in connection with the recently-filed securities class action naming me as a co-defendant, including White v. H&R Block, Inc. et al, Smith v. H&R Block, Inc. et al, Rodney v. H&R Block, Inc., et al, McCormack v. H&R Block, Inc. et al, and any other related case (collectively, the "RAL Disclosure Litigation"). I also understand that the Company will pay, on my behalf and as they accrue, all expenses incurred in defending the RAL Disclosure Litigation prior to its final disposition.

I hereby undertake to repay such amounts advanced by the Company on my behalf unless it shall ultimately be determined (whether by the Board of Directors or otherwise) that I am entitled to be indemnified because I acted in good faith and in a manner I reasonably believed to be in, or not opposed, to the best interests of the Company.

Very truly yours,

/s/ FRANK J. COTRONEO

Frank J. Cotroneo

Dated: 3/31/03

EXHIBIT C

OPTIONEE STATEMENT

H&R BLOCK, INC.

EXERCISABLE AS OF 9/3/2003

FRANK J. COTRONEO

GRANT DATE	EXPIRATION DATE	PLAN ID	GRANT TYPE	OPTIONS GRANTED OR TRANSFERRED TO	OPTION PRICE	OPTIONS/DATE TRANSFERRED OUT	OPTIONS OUTSTANDING	OPTIONS EXERCISABLE
2/21/2000	2/21/2010	84 1	Incentive	14,856	\$20.1875		14,856	CURRENT
2/21/2000	2/21/2010	84 1	Non-Qualified	25,144	\$20.1875		25,144	CURRENT
6/30/2000	6/30/2010	84 1	Incentive	1	\$16.1875		1	CURRENT
6/30/2000	6/30/2010	84 1	Non-Qualified	69,999	\$16.1875		23,333	CURRENT
6/30/2001	6/30/2011	84 1	Incentive	3,098	\$32.2750		3,098	CURRENT
6/30/2001	6/30/2011	84 1	Non-Qualified	66,902	\$32.2750		43,570	CURRENT
6/30/2002	6/30/2012	84 1	Incentive	4,332	\$46.1500		4,332	CURRENT
6/30/2002	6/30/2012	84 1	Non-Qualified	50,668	\$46.1500		50,638	CURRENT
6/30/2003	6/30/2013	84 1	Non-Qualified	45,000	\$43.2500		45,000	CURRENT
Optionee Totals				280,000			210,002	63,334

EXHIBIT D

REFERENCE LETTER

To Whom It May Concern:

Frank Cotroneo was Senior Vice-President and Chief Financial Officer of H&R Block from February 21, 2000 to October 31, 2003. During his tenure, Mr. Cotroneo was an integral member of our management team. Frank left to pursue other opportunities, and his departure was amicable. We wish him well.

Sincerely yours,

Mark A. Ernst

H&R BLOCK, INC.

2003 LONG-TERM EXECUTIVE COMPENSATION PLAN
(AS AMENDED SEPTEMBER 10, 2003)

1. PURPOSES. The purposes of this 2003 Long-Term Executive Compensation Plan are to provide incentives and rewards to those employees largely responsible for the success and growth of H&R Block, Inc. and its subsidiary corporations, and to assist all such corporations in attracting and retaining executives and other key employees with experience and ability.

2. DEFINITIONS.

(a) AWARD means one or more of the following: shares of Common Stock, Restricted Shares, Stock Options, Incentive Stock Options, Stock Appreciation Rights, Performance Shares, Performance Units and any other rights which may be granted to a Recipient under the Plan.

(b) COMMITTEE means the Compensation Committee described in Section 3.

(c) COMMON STOCK means the Common Stock, without par value, of the Company.

(d) COMPANY means H&R Block, Inc., a Missouri corporation, and, unless the context otherwise requires, includes its "subsidiary corporations" (as defined in Section 424(f) of the Internal Revenue Code) and their respective divisions, departments and subsidiaries and the respective divisions, departments and subsidiaries of such subsidiaries.

(e) INCENTIVE STOCK OPTION means a Stock Option which meets all of the requirements of an "incentive stock option" as defined in Section 422(b) of the Internal Revenue Code.

(f) INTERNAL REVENUE CODE means the Internal Revenue Code of 1986, as now in effect or hereafter amended.

(g) PERFORMANCE PERIOD means that period of time specified by the Committee during which a Recipient must satisfy any designated performance goals in order to receive an Award.

(h) PERFORMANCE SHARE means the right to receive, upon satisfying designated performance goals within a Performance Period, shares of Common Stock, cash, or a combination of cash and shares of Common Stock, based on the market value of shares of Common Stock covered by such Performance Shares at the close of the Performance Period.

(i) PERFORMANCE UNIT means the right to receive, upon satisfying designated performance goals within a Performance Period, shares of Common Stock, cash, or a combination of cash and shares of Common Stock.

(j) PLAN means this 2003 Long-Term Executive Compensation Plan, as the same may be amended from time to time.

(k) RECIPIENT means an employee of the Company who has been granted an Award under the Plan.

(l) RESTRICTED SHARE means a share of Common Stock issued to a Recipient hereunder subject to such terms and conditions, including, without limitation, forfeiture or resale to the Company, and to such restrictions against sale, transfer or other disposition, as the Committee may determine at the time of issuance.

(m) STOCK APPRECIATION RIGHT means the right to receive, upon exercise of a stock appreciation right granted under this Plan, shares of Common Stock, cash, or a combination of cash and shares of Common Stock, based on the increase in the market value of the shares of Common Stock covered by such stock appreciation right from the initial day of the Performance Period for such stock appreciation right to the date of exercise.

(n) STOCK OPTION means the right to purchase, upon exercise of a stock option granted under this Plan, shares of the Company's Common Stock.

3. ADMINISTRATION OF THE PLAN. The Plan shall be administered by the Committee which shall consist of directors of the Company, to be appointed by and to serve at the pleasure of the Board of Directors of the Company. A majority of the Committee members shall constitute a quorum and the acts of a majority of the members present at any meeting at which a quorum is present, or acts approved in writing by a majority of the Committee, shall be valid acts of the Committee, however designated, or the Board of Directors of the Company if the Board has not appointed a Committee.

The Committee shall have full power and authority to construe, interpret and administer the Plan and, subject to the powers herein specifically reserved to the Board of Directors and subject to the other provisions of this Plan, to make determinations which shall be final, conclusive and binding upon all persons including, without limitation, the Company, the shareholders of the Company, the Board of Directors, the Recipients and any persons having any interest in any Awards which may be granted under the Plan. The Committee shall impose such additional conditions upon the grant and exercise of Awards under this Plan as may from time to time be deemed necessary or advisable, in the opinion of counsel to the Company, to comply with applicable laws and regulations. The Committee from time to time may adopt rules and regulations for carrying out the Plan and written policies for implementation of the Plan. Such policies may include, but need not be limited to, the type, size and terms of Awards to be made to Recipients and the conditions for payment of such Awards.

4. ABSOLUTE DISCRETION. The Committee may, in its sole and absolute discretion (subject to the Committee's power to delegate certain authority in accordance with the second paragraph of this Section 4), at any time and from time to time during the continuance of the Plan, (i) determine which employees of the Company shall be granted Awards under the Plan, (ii) grant to any employee so selected such an Award, (iii) determine the type, size and terms of Awards to be granted (subject to Sections 6, 10 and 11 hereof), (iv) establish objectives and conditions for receipt of Awards, (v) place conditions or restrictions on the payment or exercise of Awards, and (vi) do all other things necessary and proper to carry out the intentions of this Plan; provided, however, that, in each and every case, those Awards which are Incentive Stock Options shall contain and be subject to those requirements specified in Section 422 of the Internal Revenue Code and shall be granted only to those employees eligible thereunder to receive the same.

The Committee may at any time and from time to time delegate to the Chief Executive Officer of the Company authority to take any or all of the actions that may be taken by the Committee as specified in this Section 4 or in other sections of the Plan in connection with the determination of Recipients, types, sizes, terms and conditions of Awards under the Plan and the grant of any such Awards, provided that any authority so delegated (a) shall apply only to Awards to employees of the Company that are not officers of

Company under Regulation Section 240.16a-1(f) promulgated pursuant to Section 16 of the Securities Exchange Act of 1934, and (b) shall be exercised only in accordance with the Plan and such rules, regulations, guidelines, and limitations as the Committee shall prescribe.

5. ELIGIBILITY. Awards may be granted to any employee of the Company. No member of the Committee (other than any ex officio member) shall be eligible for grants of Awards under the Plan. An employee may be granted multiple forms of Awards under the Plan. Incentive Stock Options may be granted under the Plan to a Recipient during any calendar year only if the aggregate fair market value (determined as of the date the Incentive Stock Option is granted) of Common Stock with respect to which Incentive Stock Options are exercisable for the first time by such Recipient during any calendar year under the Plan and any other "incentive stock option plans" (as defined in the Internal Revenue Code) maintained by the Company does not exceed the sum of \$100,000.

6. STOCK SUBJECT TO THE PLAN. The total number of shares of Common Stock issuable under this Plan may not at any time exceed 5,000,000 shares, subject to adjustment as provided herein. All of such shares may be issued or issuable in connection with the exercise of Incentive Stock Options. Shares of Common Stock not actually issued pursuant to an Award shall be available for future Awards. Shares of Common Stock to be delivered or purchased under the Plan may be either authorized but unissued Common Stock or treasury shares. The total number of shares of Common Stock that may be subject to one or more Awards granted to any one Recipient during a calendar year may not exceed 500,000, subject to adjustment as provided in Section 16 of the Plan.

7. AWARDS.

(a) Awards under the Plan may include, but need not be limited to, shares of Common Stock, Restricted Shares, Stock Options, Incentive Stock Options, Stock Appreciation Rights, Performance Shares and Performance Units. The amount of each Award may be based upon the market value of a share of Common Stock. The Committee may make any other type of Award which it shall determine is consistent with the objectives and limitations of the Plan.

(b) The Committee may establish performance goals to be achieved within such Performance Periods as may be selected by it using such measures of the performance of the Company as it may select as a condition to the receipt of any Award.

8. VESTING REQUIREMENTS. The Committee may determine that all or a portion of an Award or a payment to a Recipient pursuant to an Award, in any form whatsoever, shall be vested at such times and upon such terms as may be selected by it.

9. DEFERRED PAYMENTS AND DIVIDEND AND INTEREST EQUIVALENTS.

(a) The Committee may determine that the receipt of all or a portion of an Award or a payment to a Recipient pursuant to an Award, in any form whatsoever, shall be deferred. Deferrals shall be for such periods and upon such terms as the Committee may determine.

(b) The Committee may provide, in its sole and absolute discretion, that a Recipient to whom an Award is payable in whole or in part at a future time in shares of Common Stock shall be entitled to receive an amount per share equal in value to the cash dividends paid per share on issued and outstanding shares as of the dividend record dates occurring during the period from the date of the Award to the date of delivery of such share to the Recipient. The Committee may also authorize, in its sole and absolute discretion, payment of an amount which a Recipient

would have received in interest on (i) any Award payable at a future time in cash during the period from the date of the Award to the date of payment, and (ii) any cash dividends paid on issued and outstanding shares as of the dividend record dates occurring during the period from the date of an Award to the date of delivery of shares pursuant to the Award. Any amounts provided under this subsection shall be payable in such manner, at such time or times, and subject to such terms and conditions as the Committee may determine in its sole and absolute discretion.

10. STOCK OPTION PRICE. The purchase price per share of Common Stock under each Stock Option shall be determined by the Committee, but shall not be less than market value (as determined by the Committee) of one share of Common Stock on the date the Stock Option or Incentive Stock Option is granted. Payment for exercise of any Stock Option granted hereunder shall be made (a) in cash, or (b) by delivery of Common Stock having a market value equal to the aggregate option price, or (c) by a combination of payment of cash and delivery of Common Stock in amounts such that the amount of cash plus the market value of the Common Stock equals the aggregate option price.

11. STOCK APPRECIATION RIGHT VALUE. The base value per share of Common Stock covered by an Award in the form of a Stock Appreciation Right shall be the market value of one share of Common Stock on the date the Award is granted.

12. CONTINUATION OF EMPLOYMENT. The Committee shall require that a Recipient be an employee of the Company at the time an Award is paid or exercised. The Committee may provide for the termination of an outstanding Award if a Recipient ceases to be an employee of the Company and may establish such other provisions with respect to the termination or disposition of an Award on the death or retirement of a Recipient as it, in its sole discretion, deems advisable. The Committee shall have the sole power to determine the date of any circumstances which shall constitute a cessation of employment and to determine whether such cessation is the result of retirement, death or any other reason.

13. REGISTRATION OF STOCK. Each Award shall be subject to the requirement that if at any time the Committee shall determine that qualification or registration under any state or federal law of the shares of Common Stock, Restricted Shares, Stock Options, Incentive Stock Options, or other securities thereby covered or the consent or approval of any governmental regulatory body is necessary or desirable as a condition of or in connection with the granting of such Award or the purchase of shares thereunder, the Award may not be paid or exercised in whole or in part unless and until such qualification, registration, consent or approval shall have been effected or obtained free of any conditions the Committee, in its discretion, deems unacceptable.

14. EMPLOYMENT STATUS. No Award shall be construed as imposing upon the Company the obligation to continue the employment of a Recipient. No employee or other person shall have any claim or right to be granted an Award under the Plan.

15. ASSIGNABILITY. No Award granted pursuant to the Plan shall be transferable or assignable by the Recipient other than by will or the laws of descent and distribution and during the lifetime of the Recipient shall be exercisable or payable only by or to him or her.

16. DILUTION OR OTHER ADJUSTMENTS. In the event of any changes in the capital structure of the Company, including but not limited to a change resulting from a stock dividend or split-up, or combination or reclassification of shares, the Board of Directors shall make such equitable adjustments with respect to Awards or any provisions of this Plan as it deems necessary and appropriate, including, if necessary, any adjustment in the maximum number of shares of

Common Stock subject to the Plan, the maximum number of shares that may be subject to one or more Awards granted to any one Recipient during a calendar year, or the number of shares of Common Stock subject to an outstanding Award.

17. MERGER, CONSOLIDATION, REORGANIZATION, LIQUIDATION, ETC. If the Company shall become a party to any corporate merger, consolidation, major acquisition of property for stock, reorganization, or liquidation, the Board of Directors shall make such arrangements it deems advisable with respect to outstanding Awards, which shall be binding upon the Recipients of outstanding Awards, including, but not limited to, the substitution of new Awards for any Awards then outstanding, the assumption of any such Awards and the termination of or payment for such Awards.

18. WITHHOLDING TAXES. The Company shall have the right to deduct from all Awards hereunder paid in cash any federal, state, local or foreign taxes required by law to be withheld with respect to such Awards and, with respect to Awards paid in other than cash, to require the payment (through withholding from the Recipient's salary or otherwise) of any such taxes. Subject to such conditions as the Committee may establish, Awards payable in shares of Common Stock, or in the form of an Incentive Stock Option or Stock Option, may provide that the Recipients thereof may elect, in accordance with any applicable regulations, to satisfy all or any part of the tax required to be withheld by the Company in connection with such Award, or the exercise of such Incentive Stock Option or Stock Option, by electing to have the Company withhold a number of shares of Common Stock awarded, or purchased pursuant to such exercise, having a fair market value on the date the tax withholding is required to be made equal to or less than the amount required to be withheld.

19. COSTS AND EXPENSES. The cost and expenses of administering the Plan shall be borne by the Company and not charged to any Award or to any Recipient.

20. FUNDING OF PLAN. The Plan shall be unfunded. The Company shall not be required to establish any special or separate fund or to make any other segregation of assets to assure the payment of any Award under the Plan.

21. AWARD CONTRACTS. The Committee shall have the power to specify the form of Award contracts to be granted from time to time pursuant to and in accordance with the provisions of the Plan and such contracts shall be final, conclusive and binding upon the Company, the shareholders of the Company and the Recipients. No Recipient shall have or acquire any rights under the Plan except such as are evidenced by a duly executed contract in the form thus specified. No Recipient shall have any rights as a holder of Common Stock with respect to Awards hereunder unless and until certificates for shares of Common Stock or Restricted Shares are issued to the Recipient.

22. GUIDELINES. The Board of Directors of the Company shall have the power to provide guidelines for administration of the Plan by the Committee and to make any changes in such guidelines as from time to time the Board deems necessary.

23. AMENDMENT AND DISCONTINUANCE. The Board of Directors of the Company shall have the right at any time during the continuance of the Plan to amend, modify, supplement, suspend or terminate the Plan, provided that in the absence of the approval of the holders of a majority of the shares of Common Stock of the Company present in person or by proxy at a duly constituted meeting of shareholders of the Company, no such amendment, modification or supplement shall (i) increase the aggregate number of shares which may be issued under the Plan, unless such increase is by reason of any change in capital structure referred to in Section 16

hereof, (ii) change the termination date of the Plan provided in Section 24, (iii) delete or amend the market value restrictions contained in Sections 10 and 11 hereof, (iv) materially modify the requirements as to eligibility for participation in the Plan, or (v) materially increase the benefits accruing to participants under the Plan, and provided further, that no amendment, modification or termination of the Plan shall in any manner affect any Award of any kind theretofore granted under the Plan without the consent of the Recipient of the Award, unless such amendment, modification or termination is by reason of any change in capital structure referred to in Section 16 hereof or unless the same is by reason of the matters referred to in Section 17 hereof.

24. TERMINATION. The Committee may grant Awards at any time prior to July 1, 2013, on which date this Plan will terminate except as to Awards then outstanding hereunder, which Awards shall remain in effect until they have expired according to their terms or until July 1, 2023, whichever first occurs. No Incentive Stock Option shall be exercisable later than 10 years following the date it is granted.

25. APPROVAL. This Plan shall take effect July 1, 2003, contingent upon prior approval by the shareholders of the Company.

CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Mark A. Ernst, Chief Executive Officer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of H&R Block, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: December 10, 2003

/s/ MARK A. ERNST

Mark A. Ernst
Chief Executive Officer
H&R Block, Inc.

CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Melanie K. Coleman, Principal Accounting Officer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of H&R Block, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: December 10, 2003

/s/ MELANIE K. COLEMAN

Melanie K. Coleman
Principal Accounting Officer
H&R Block, Inc.

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES OXLEY ACT OF 2002

In connection with the quarterly report of H&R Block, Inc. (the "Company") on Form 10-Q for the period ending October 31, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Mark A. Ernst, Chief Executive Officer of the Company, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ MARK A. ERNST

Mark A. Ernst
Chief Executive Officer
H&R Block, Inc.
December 10, 2003

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report of H&R Block, Inc. (the "Company") on Form 10-Q for the period ending October 31, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Melanie K. Coleman, Principal Accounting Officer of the Company, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ MELANIE K. COLEMAN

Melanie K. Coleman
Principal Accounting Officer
H&R Block, Inc.
December 10, 2003



South Loop TIF - Acquisition Parcels

Prepared by the Economic Development Corporation of Kansas City, Missouri MP 01/13/04



NOT TO SCALE

RELOCATION ASSISTANCE PLAN

- (a) Definitions. The following terms, whenever used or referred to herein, shall have the following meanings:
- (i) Designated Occupants. "Designated Occupants" shall mean handicapped displaced occupants and those displaced occupants who are 65 years of age or older at the time of the notice to vacate or who have an income less than the average median income for the metropolitan area as certified annually by the Director of City Development based upon standards established by the Department of Housing and Community Development of Kansas City, Missouri.
 - (ii) Displaced Business. "Displaced Business" shall mean any business that moves from real property within the development area as a result of the acquisition of such property, or as a result of written notice to vacate such property, or in conjunction with the demolition, alteration or repair of said property, by the Tax Increment Financing Commission pursuant to RSMo. 99.800 et. seq., as amended.
 - (iii) Displaced Occupant. "Displaced Occupant" shall mean any occupant who moves from real property within the development area as a result of the acquisition of such property, or as a result of written notice to vacate such property, or in connection with the demolition, alteration or repair of said property, by the Tax Increment Financing Commission pursuant to RSMo. 99.800 et. seq., as amended.
 - (iv) Handicapped Occupant. "Handicapped Occupant" shall mean any occupant who is deaf, legally blind, or orthopedically disabled to the extent that acquisition of other residence presents a greater burden than other occupants would encounter or that modification to the residence would be necessary.
 - (v) Occupant. "Occupant" shall mean a residential occupant of a building having lawful possession thereof, and further shall include any person in lawful possession, whether related by blood or marriage to any other occupant.
 - (vi) Person. "Person" shall mean any individual, firm, partnership, joint venture, association, corporation and any life insurance company, organized under the laws of, or admitted to do business in the State of Missouri, undertaking a redevelopment project in a urban renewal area, whether organized for profit or not, estate, trust, business trust, receiver or trustee appointed by any state or federal court, syndicate, or any other group or combination acting as a unit, and shall include the male as well as the female gender and the plural as well as the singular number.
- (b) Plan Requirement. Every person approved by the Commission as a developer of property subject to be acquired by the Tax Increment Financing Commission if furtherance of a Tax Increment Financing plan shall submit to the Commission a relocation plan as part of the developer's redevelopment plan.
- (c) Contents of Plan. The relocation plan shall provide for the following:
- (i) Payments to all displaced occupants and displaced businesses in occupancy at least ninety (90) days prior to the date said displaced occupant or said displaced business is required to vacate the premises by the developer, its assigns or

any person seeking acquisition powers under the Tax Increment Financing plan pursuant to RSMo. 99.800 et. seq., as amended; and

(ii) Program for identifying needs of displaced occupants and displaced businesses with special consideration given to income, age, size of family, nature of business, availability of suitable replacement facilities, and vacancy rates of affordable facilities; and

(iii) Program for referrals of displaced occupants and displaced businesses with provisions for a minimum of three (3) suitable referral sites, a minimum of ninety (90) days notice of referral sites for handicapped displaced occupants and sixty (60) days notice of referral sites for all other displaced occupants and displaced businesses, prior to the date such displaced occupant or displaced business is required to vacate the premises; and arrangements for transportation to inspect referral sites to be provided to designated occupants.

(iv) Every displaced occupant and every displaced business shall be given a ninety (90) day notice to vacate; provided, however, that the developer may elect to reduce the notice time to sixty (60) days if the developer extends the relocation payments and benefits set forth in subsections (d), (e) and (f) below to any displaced occupant or displaced business affected by said reduction in time.

(d) Payments to Occupants. All displaced occupants eligible for payments under subsection (c)(i) hereof shall be provided with relocation payments based upon one of the following, at the option of the occupant:

(i) A \$500.00 payment to be paid at least thirty (30) days prior to the date the occupant is required to vacate the premises; or

(ii) Actual reasonable costs of relocation including actual moving costs, utility deposits, key deposits, storage or personal property up to one month, utility transfer and connection fees, and other initial rehousing deposits including first and last month's rent and security deposit.

(e) Handicapped Displaced Occupant Allowance. In addition to the payments provided in subsection (d) hereof, an additional relocation payment shall be provided to handicapped displaced occupants which shall equal the amount, if any, necessary to adapt a replacement dwelling to substantially conform with the accessibility and usability of such occupant's prior residence, such amount not to exceed Four Hundred Dollars (\$400.00).

(f) Payment to Businesses. All displaced businesses eligible for payments under subsection (c)(i) hereof shall be provided with relocation payments based upon the following, at the option of the business:

(i) A \$1,500.00 payment to be paid at least thirty (30) days prior to the date the business is required to vacate the premises; or

(ii) Actual costs of moving including costs for packing, crating, disconnecting, dismantling, reassembling and installing all personal equipment and costs for relettering signs and replacement stationery.

(g) Waiver of Payments. Any occupant who is also the owner of premises and any business may waive their relocation payments set out above as part of the negotiations for

acquisition of the interest held by said occupant or business. Said waiver shall be in writing and filed with the Commission.

(h) Notice of Relocation Benefits. All occupants and businesses eligible for relocation benefits hereunder shall be notified in writing of the availability of such relocation payments and assistance, such notice to be given concurrent with the notice of referral sites required by subsection (c)(iii) hereof.

(i) Persons Bound by the Plan. Any developer, its assigns or transferees, provided assistance in land acquisition by the Tax Increment Financing Commission, is required to comply with the Executive Director of the Commission. Such certification shall include, among other things, the addresses of all occupied residential buildings and structures within the redevelopment plan area and the names and addresses of occupants and businesses displaced by the developer and specific relocation benefits provided to each occupant and business, as well as a sample notice provided each occupant and business.

(j) Minimum Requirements. The requirements set out herein shall be considered minimum standards. In reviewing any proposed redevelopment plan, the Commission shall determine the adequacy of the proposal and may require additional elements to be provided therein.