

FILED

MAY 10 2005

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IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF ILLINOIS
EASTERN DIVISION

MICHAEL W. DOBBINS
CLERK, U.S. DISTRICT COURT

LYNNE A. CARNEGIE,)
et al.,)
)
Plaintiff,)
)
)
vs.)
)
HOUSEHOLD INTERNATIONAL, INC.)
et al.,)
)
)
Defendants.)

No. 98 C 2178
Judge Elaine Bucklo

**OBJECTION TO MOTION FOR PRELIMINARY APPROVAL
OF CLASS ACTION SETTLEMENT**

Plaintiff Triplett, who remains an individual party in this case, objects to preliminary approval of the proposed Settlement, as now written, on the following grounds:

1. The \$250 million face value coupons are unlikely to be redeemed. According to Block's January 31, 2005 Quarterly Report (Exhibit A hereto), its average tax preparation fee per client served is \$150. A \$ 6 coupon on a \$150 transaction is unlikely to be used. The coupons can not be redeemed at point of sale and have to be mailed in with proof of purchase for redemption. The low redemption rates on coupons motivated the Federal Trade Commission to seek leave to file an amicus curiae brief in the Texas settlement of Haese v. H & R Block. The FTC argued that the \$262 million face value in coupons there was illusory and that the settlement was contrary to the public interest. (See Exhibit B - June 6, 2003 Announcement from FTC website.) Further, Section IX of the Notice states that up to \$30 million in coupons may be held back for counsel fees.

2. The Motion for Preliminary Approval contains no mention of the amount of cash each class member is expected to receive. It could well be smaller than the rejected settlement because the proposed new class has been expanded and the potential attorney fees have been increased from \$4.25 million to \$90 million. The proposed class now includes 28 million people with 55 million transactions according to Block's press release (Exhibit C.) The prior settlement class was 17 million people. In the prior settlement, a cash payment not to exceed \$15 and \$30 for multiple RAL claimants was rejected as inadequate. It is far from clear that class members will get that much here.

3. According to Section V of the latest Notice, Lead Class Counsel will apply for an award of attorney's fees and expenses not to exceed 25 percent of the value of the settlement which is stated to be \$110 million cash plus \$250 million in coupons for a total of \$360 million. Thus, Lead Class Counsel can apply for a fee of up to \$ 90 million. Under Section IX of the Settlement Agreement, the settling defendants agree not to object to the fee request. A potential \$90 million fee plus the costs of administration could eviscerate the cash portion of the settlement and leave class members with less cash than the rejected settlement. Even if the fee is limited to 25% of the cash portion of \$110 million, ie. a \$27.5 million fee, and if \$10 million is spent on administration, that leaves \$72.5 million for class members. If 15% of the 28 million class members then file claims, each class member gets \$17.26 which is about the same as what was previously held inadequate.

4. The Motion for Preliminary Approval does not adequately address how notice will be given to a highly fluid class of 28 million people. The class period spans 18 years. H and R Block RAL clients tend to be lower income highly mobile individuals. The settling parties have not sufficiently explained how they will overcome the challenge of giving notice to this group other than stating that notice will be attempted through the mail and a summary notice in Parade magazine.

5. Until the issues of the value of the coupons, the amount of cash each class member will receive and the adequacy of notice are resolved, preliminary approval should be withheld.

Plaintiff Nannie Triplett


By 

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Dated: May 10, 2005

Certificate of Service

I, Howard B. Prossnitz, served a copy of the foregoing on the counsel on the attached service list on this 10th day of May, 2005 by first class U.S. mail



CARNEGIE vs. HOUSEHOLD INTERNATIONAL, INC.

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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 January 31, 2005

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®

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

Exhibit A

The number of shares outstanding of the registrant's Common Stock, without par value, at the close of business on

AR Black Quarterly Report 1/30/05 p. 20

Three months ended January 31, 2005 compared to January 31, 2004

Tax Services' revenues increased \$56.6 million, or 11.9%, for the three months ended January 31, 2005 compared to the prior year.

Tax preparation and related fees increased \$36.1 million, or 10.7%, for the current quarter. This increase is primarily due to an increase in the average fee per U.S. client served, coupled with an increase in U.S. clients served in offices. The average fee per client served increased 6.9% to \$149.94 in the current year compared to \$140.25 last year. Clients served in company-owned offices during the current tax season totaled 2.4 million, up 3.6% from the prior year. We estimate that approximately \$10.8 million of the total increase is due to new offices opened during the current year.

Other service revenues increased \$8.1 million primarily as a result of additional revenues associated with Refund Anticipation Checks (RACs), Express IRAs and, to a lesser extent, increased revenues from POM guarantees.

The average fee per client served at franchise offices increased by 4.1%, while clients served rose 4.0%. These increases, coupled with a slight increase in the royalty rate during the current quarter, resulted in a \$6.5 million increase in royalty revenue.

Revenues earned during the current quarter in connection with RAL participations totaled \$43.4 million, an increase of 16.6% over the prior year. This increase is primarily due to an increase in the dollar value of loans in which we purchased participation interests, resulting from an increase in the fee charged by the lender, an increase in our clients' average refund size, and an increase in the maximum loan amount allowed by the lender.



FEDERAL TRADE COMMISSION
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**For Your Information:
Announced Actions for June 6, 2003**

Commission authorization of the staff to file Amicus Brief: The Commission has authorized the staff to file a motion to leave to file an amicus brief in the case *Haese v. H&R Block, Inc.*, No. CV-96-423 (Dist. Ct. of Kleberg County, TX). The brief, which is available on the FTC's Web site as a link to this press release, concerns a proposed class action settlement preliminarily approved by the court in this matter. In addition to addressing concerns about the uncertain and likely low value of the proposed coupon settlement in this case, the brief addresses the class action counsel's request for certain fees and their proposal that those fees be shared with the class members. The brief contends that the proposed settlement as a whole is contrary to the public interest.

The FTC's brief addresses the proposed settlement of a case currently pending in Texas, in which the plaintiffs filed suit in 1996 against H&R Block (H&R) and a number of affiliated companies on their own behalf and on behalf of other Texas residents. The plaintiffs, who were due income tax refunds, obtained refund anticipation loans or "RALs" from a bank. H&R assisted the plaintiffs in obtaining these RALs. In doing so, H&R allegedly failed to disclose the fact that it was receiving a "kick back" or license fee from the lending bank for each RAL it facilitated.

The court on March 31, 2003 approved a preliminary settlement that provides coupons to qualifying class members to use at H&R. The coupons could be used by the 700,000 class members to obtain a tax preparation service \$20 rebate, free tax preparation and planning computer software, and a free tax planning advisor booklet each year for five years. The estimated face value of the coupons is about \$262 million. In addition, the settlement called for H&R to pay class counsel up to \$49 million in attorney's fees and to reimburse them for up to \$900,000 in expenses, as approved by the court. The settlement further provides H&R with broad releases from related plaintiff claims. Class counsel also filed a motion for the release of funds, asking the court to allow them to pay \$26 million of their attorney's fees to class members (\$37.14 per member). The offer is contingent on the court's approval of the class counsel's attorney fee request.

The FTC's amicus brief, filed with the court on June 5, addresses the case settlement and proposed attorney's fees. The brief argues that the value of the proposed coupon settlement is likely substantially lower than the purported \$262 million face value of the coupons for several reasons. First, coupon programs are widely known to have low redemption rates. Second, the likelihood of class members using all the coupons is remote, in part because they are unlikely to use the service and the two products during the same tax season. Third, according to the brief, the parties have not shown that there will be a market for the transferrable software and book coupons. Finally, class members who buy tax preparation services may not submit the coupon and proof of payment to obtain the rebate.

The brief also contends that the court must assess the adequacy and propriety of the settlement as a whole, including the strength of the plaintiffs' case on the merits and the settlement's provision for fee awards. The brief maintains that there is strong reason to conclude that the proposed settlement package is not fair or reasonable, regardless of the strength of plaintiffs' claims. If one assumes, in keeping with the court's preliminary ruling, that plaintiffs are ultimately likely to prevail on the pertinent issues - i.e., that H&R owed a fiduciary duty to plaintiffs as a matter of law; that its violation was intentional, willful and deliberate; and that plaintiffs are entitled not only to forfeiture of the license fees H&R received, but also the fees paid by plaintiffs to H&R (a total of nearly \$75 million) - then the coupon settlement of uncertain and likely low value is inadequate. If by contrast, as H&R contends - and consistent with rulings it has obtained in other states - there is a substantial likelihood that the court's preliminary ruling would be overturned on appeal, the coupon settlement may be adequate, but the attorneys' fees are even more unreasonable.

The brief also contends that any fees must be based on the actual value - as opposed to the face value - of the coupons, and that the court must, consistent with precedent, test the proposed "percentage-of-recovery" fee against established standards to prevent excessive attorneys' fee awards. Finally, the brief argues that the class counsel's attempt to divert some of their fees to the

Related Documents:

Ronnie and Nancy Ha Plaintiffs, v. H&R Block, Inc., Defendants (District of Kleberg County, Texas Judicial District, Cause No. 96-423): Filings In Support of the Federal Commission To Appeal Amicus Curiae Regarding Proposed Class Action and Petition For An Award of Attorneys' Fees

- Motion and Memorandum of Points and Authorities in Support of the Request of the Federal Trade Commission to Appear As Amicus Curiae [PDF 13K]
- Proposed Order Granting Motion of the Federal Trade Commission to Appear As Amicus Curiae [PDF 13K]
- Federal Trade Commission Memorandum of Points and Authorities As Amicus Curiae [PDF 71K]
- Table of Authorities

U.S. Department of Transportation Proposed Regulations Governing Computer Reservations System

- FTC Comments

Exhibit B

class is problematic for several reasons, including questions about whether it could be enforced and the fact that class counsel have not offered to pay a specific amount if the court approves the payment of fees of more than \$26 million but less than \$49 million. The Commission vote authorizing staff to file the brief was 5-0. (FTC File No. P024210, staff contact is Robert M. Frisby, Bureau of Consumer Protection, 202-326-2098.)

Commission authorization of comments to the Department of Transportation: The Commission has filed comments with the U.S. Department of Transportation (DOT) concerning proposed rules governing computer reservations systems (CRS). The FTC's comments, which can be found as a link to this press release on the Commission's Web site, were filed in response to a DOT Notice of Proposed Rulemaking (NPR) that advised the public that the DOT was initiating a proceeding to examine whether its existing CRS rules were still necessary and, if so, whether they should be modified.

The Commission's comments address references to FTC case law and policy in the DOT's analysis of its proposed revisions of the CRS regulations. The Commission vote authorizing the filing of the comments with the DOT was 5-0. (FTC File No. P859907, staff contact is Melvin H. Orlans, Office of the General Counsel, 202-326-2475.)

Copies of the documents mentioned in this release are available from the FTC's Web site at <http://www.ftc.gov> and also from the FTC's Consumer Response Center, Room 130, 600 Pennsylvania Avenue, N.W., Washington, D.C. 20580. Call toll-free: 1-877-FTC-HELP.

MEDIA CONTACT:

Office of Public Affairs
202-326-2180

(<http://www.ftc.gov/opa/2003/06/fyi0336.htm>)

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EX-99.1 2 pressrelease99-1.htm PRESS RELEASE

News Release

Companies, Plaintiffs' Attorneys Propose RAL Settlement to Court

***HSBC Taxpayer Financial Services Inc., H&R Block and Plaintiff Class Representative
Submit Settlement for U.S. District Court's Approval;
Settlement Would Resolve All Current RAL-Related Class Action Litigation***

CHICAGO, Ill. – HSBC Taxpayer Financial Services Inc. and H&R Block (NYSE:HRB) have reached an agreement with the plaintiff class representative and class counsel Kirby, McInerney and Squire, LLP and Levy, Angstreich, Finney, Baldante, Rubenstein & Coren, P.C., that would settle a 1998 Chicago class action lawsuit related to refund anticipation loans, as well as end all current RAL-related class action litigation against the companies.

The proposed settlement was filed today in an action that has been pending in the U.S. District Court for the Northern District of Illinois, under the caption *Lynne A. Carnegie v. Household International, Inc., et al.* The proposed settlement would cover all refund anticipation loans that had been funded by various lenders through H&R Block as well as many refund anticipation loans that were funded by Beneficial National Bank, Household Bank f.s.b., and various lenders with which HSBC Taxpayer Financial Services had agreements through other tax preparers from 1987, when such loans first were offered, through the end of the 2005 tax season. Overall, the proposed nationwide settlement class would include more than 28 million consumers and cover more than 55 million individual refund anticipation loan transactions.

The proposed settlement provides for \$110 million cash and a total of \$250 million in freely transferable redeemable coupons. The cash would be distributed to class members who submit a timely proof of claim, based on the number of RALs they had obtained. The coupons would have a face value of \$6 and be distributed to all class members, subject to certain exceptions, also based primarily on the number of RALs they had obtained. The coupons, which have a three-year tax season life and can be aggregated up to four coupons per tax season, can be used in connection with any retail tax preparation services at any H&R Block retail location, or for online H&R Block tax preparation-related services and tax preparation software, over the next three annual tax seasons.

The proposed settlement would also require that H&R Block continue to use a six-step disclosure process to assure that H&R Block offers the "best-in-class" practices available for future refund anticipation loans to consumers. These practices would outline all tax filing options and costs, and the time required to receive refunds with each option, for refund anticipation loan clients at H&R Block offices. The goal is to ensure that consumers have all the information necessary to make smart choices that meet their financial needs.

— more —

RAL Settlement – page 2

The proposed settlement is subject to the review and approval of U.S. District Judge Elaine Bucklo. If Judge Bucklo grants preliminary approval of the settlement, notices are anticipated to be mailed to class members within 45 days thereafter. Class members would have the right to exclude themselves from the settlement, subject to certain limitations, or to object to its terms at a fairness hearing that would be held later in 2005.

Media Contacts:

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Exhibit C