

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
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FORM 10-Q

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934  
FOR THE QUARTERLY PERIOD ENDED OCTOBER 31, 2001

[ ] 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 44-0607856  
(STATE OR OTHER JURISDICTION OF (I.R.S. EMPLOYER  
INCORPORATION OR ORGANIZATION) 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 X No  
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The number of shares outstanding of the registrant's Common Stock, without par value, at the close of business on November 30, 2001 was 182,699,381 shares.

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H&R BLOCK, INC.  
CONSOLIDATED BALANCE SHEETS  
AMOUNTS IN THOUSANDS, EXCEPT SHARE AMOUNTS

	OCTOBER 31, 2001 ----	APRIL 30, 2001 ----
ASSETS	(UNAUDITED)	(AUDITED)
CURRENT ASSETS		
Cash and cash equivalents	\$ 599,002	\$ 271,813
Marketable securities - available-for-sale	1,000	8,266
Marketable securities - trading	36,591	46,158
Receivables from customers, brokers, dealers and clearing organ- izations, less allowance for doubtful accounts of \$1,724 and \$1,692	925,219	1,310,804
Receivables, less allowance for doubtful accounts of \$48,875 and \$47,125	323,251	373,223
Prepaid expenses and other current assets	415,414	260,942
	-----	-----
TOTAL CURRENT ASSETS	2,300,477	2,271,206
INVESTMENTS AND OTHER ASSETS		
Investments in available-for-sale marketable securities	300,727	270,159
Intangible assets	393,167	402,209
Goodwill	680,567	649,617
Other	248,686	239,586
	-----	-----
	1,623,147	1,561,571
PROPERTY AND EQUIPMENT, at cost less accumulated depreciation and amortization		
	276,007	288,847
	-----	-----
	\$ 4,199,631	\$ 4,121,624
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Notes payable	\$ 881,697	\$ --
Accounts payable to customers, brokers and dealers	857,349	1,058,000
Accounts payable, accrued expenses and deposits	299,522	361,210
Accrued salaries, wages and payroll taxes	109,977	221,830
Accrued taxes on earnings	144,561	295,599
Current portion of long-term debt	50,750	51,763
	-----	-----
TOTAL CURRENT LIABILITIES	2,343,856	1,988,402
LONG-TERM DEBT		
	849,283	870,974
OTHER NONCURRENT LIABILITIES		
	92,740	88,507
STOCKHOLDERS' EQUITY		
Common stock, no par, stated value \$.01 per share	2,179	2,179
Additional paid-in capital	458,019	419,957
Retained earnings	1,332,933	1,449,022
Accumulated other comprehensive income (loss)	(20,890)	(42,767)
	-----	-----
	1,772,241	1,828,391
Less cost of 36,680,380 and 34,336,910 shares of common stock in treasury		
	858,489	654,650
	-----	-----
	913,752	1,173,741
	-----	-----

\$ 4,199,631      \$ 4,121,624  
=====

See Notes to Consolidated Financial Statements

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H&R BLOCK, INC.  
CONSOLIDATED STATEMENTS OF OPERATIONS  
UNAUDITED, AMOUNTS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS

	THREE MONTHS ENDED		SIX MONTHS ENDED	
	OCTOBER 31,		OCTOBER 31,	
	2001	2000	2001	2000
	----	----	----	----
REVENUES				
Service revenues	\$ 234,990	\$ 265,982	\$ 443,174	\$ 512,714
Product revenues	131,837	60,391	236,223	111,591
Royalties	2,886	3,877	4,443	5,193
Other	9,016	7,224	19,014	12,086
	-----	-----	-----	-----
	378,729	337,474	702,854	641,584
	-----	-----	-----	-----
OPERATING EXPENSES				
Employee compensation and benefits	200,687	172,900	376,716	319,440
Occupancy and equipment	61,749	56,234	121,428	116,458
Interest	29,785	63,973	59,590	127,171
Depreciation and amortization	34,329	48,685	68,928	96,142
Marketing and advertising	17,091	14,728	24,083	24,502
Supplies, freight and postage	9,470	10,005	16,043	17,584
Bad debt	6,263	8,733	17,099	14,254
Other	67,516	51,123	120,147	107,634
	-----	-----	-----	-----
	426,890	426,381	804,034	823,185
	-----	-----	-----	-----
Operating loss	(48,161)	(88,907)	(101,180)	(181,601)
OTHER INCOME				
Investment income, net	1,093	2,536	2,211	5,255
Other, net	(9)	15	154	(3)
	-----	-----	-----	-----
	1,084	2,551	2,365	5,252
	-----	-----	-----	-----
Loss before income tax benefit	(47,077)	(86,356)	(98,815)	(176,349)
Income tax benefit	(19,066)	(36,701)	(40,020)	(74,948)
	-----	-----	-----	-----
Net loss	\$ (28,011)	\$ (49,655)	\$ (58,795)	\$ (101,401)
	=====	=====	=====	=====
Weighted average common shares outstanding	182,288	182,806	183,073	184,664
	=====	=====	=====	=====
Basic and diluted net loss per share	\$ (.15)	\$ (.27)	\$ (.32)	\$ (.55)
	=====	=====	=====	=====
Dividends per share	\$ .16	\$ .15	\$ .31	\$ .29
	=====	=====	=====	=====

See Notes to Consolidated Financial Statements

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H&R BLOCK, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
UNAUDITED, AMOUNTS IN THOUSANDS

	SIX MONTHS ENDED	
	OCTOBER 31,	
	2001	2000
	----	----
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (58,795)	\$ (101,401)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	68,928	96,142
Provision for bad debt	17,099	14,254
Accretion of acquisition liabilities	6,187	5,604
Tax benefit from stock option exercises	41,805	--
Changes in:		
Receivables from customers, brokers, dealers and clearing organizations	385,413	216,723
Receivables	23,180	(7,592)
Marketable securities - trading	9,567	6,343
Prepaid expenses and other current assets	(154,472)	(8,792)
Accounts payable to customers, brokers and dealers	(200,651)	(278,237)
Accounts payable, accrued expenses and deposits	(61,688)	(48,599)
Accrued salaries, wages and payroll taxes	(111,853)	(97,072)
Accrued taxes on earnings	(151,038)	(175,786)
Other, net	(12,762)	(1,169)
NET CASH USED IN OPERATING ACTIVITIES	(199,080)	(379,582)
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of available-for-sale securities	(1,045)	(2,432)
Maturities of available-for-sale securities	27,498	10,090
Purchases of property and equipment	(33,724)	(23,821)
Payments made for business acquisitions, net of cash acquired	(23,468)	(10,659)
Other, net	(13,028)	(18,114)
NET CASH USED IN INVESTING ACTIVITIES	(43,767)	(44,936)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayments of notes payable	(3,916,323)	(8,197,821)
Proceeds from issuance of notes payable	4,798,020	8,828,716
Payments on acquisition debt	(47,179)	(63,993)
Dividends paid	(57,294)	(53,764)
Payments to acquire treasury shares	(351,845)	(222,816)
Proceeds from stock options exercised	144,263	1,708
Other, net	394	266
NET CASH PROVIDED BY FINANCING ACTIVITIES	570,036	292,296
	-----	-----
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	327,189	(132,222)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	271,813	379,901
	-----	-----
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	\$ 599,002	\$ 247,679
	=====	=====
SUPPLEMENTAL CASH FLOW DISCLOSURES:		
Income taxes paid	\$ 99,328	\$ 88,836
Interest paid	52,107	118,715

See Notes to Consolidated Financial Statements

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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Unaudited, dollars in thousands, except share data

- The Consolidated Balance Sheet as of October 31, 2001, the Consolidated Statements of Operations for the three and six months ended October 31,

2001 and 2000, and the Consolidated Statements of Cash Flows for the six months ended October 31, 2001 and 2000 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, 2001 and for all periods presented have been made.

Reclassifications have been made to prior periods to conform with the current period presentation.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. These consolidated financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's April 30, 2001 Annual Report to Shareholders.

Operating revenues of U.S. tax operations and Business services are seasonal in nature with peak revenues occurring in the months of January through April. Thus, the six-month results are not indicative of results to be expected for the year.

2. Receivables consist of the following:

	October 31, ----- 2001 ----- (Unaudited)	April 30, ----- 2001 ----- (Audited)
Business services accounts receivable	\$ 174,549	\$ 188,041
Mortgage loans held for sale	95,785	80,925
Participation in refund anticipation loans	24,166	38,824
Loans to franchisees	35,527	28,716
Other	42,099	83,842
	-----	-----
	372,126	420,348
Allowance for doubtful accounts	48,875	47,125
	-----	-----
	\$ 323,251	\$ 373,223
	=====	=====

3. The Company files its Federal and state income tax returns on a calendar year basis. The Consolidated Statements of Operations reflect the effective tax rates expected to be applicable for the respective full fiscal years.
4. On June 20, 2001, the Company's Board of Directors declared a two-for-one split of its common stock in the form of a 100% stock distribution effective August 1, 2001, to shareholders of record as of the close of business on July 10, 2001. All share and per share amounts have been adjusted to reflect the retroactive effect of the stock split.

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5. Basic net earnings (loss) per share is computed using the weighted average shares outstanding during each period. Diluted net earnings (loss) per share excludes the impact of shares issuable upon the exercise of common stock options of 19,007,400 and 24,376,100 shares for the six months ended October 31, 2001 and 2000, respectively, and the conversion of 1,216 shares of preferred stock to common stock, as they are antidilutive. The weighted average shares outstanding for the six months ended October 31, 2001 decreased to 183,073,000 from 184,664,000 last year, due to the purchase of treasury shares by the Company. The effect of these repurchases was partially reduced by the issuance of treasury shares for stock option exercises.
6. During the six months ended October 31, 2001 and 2000, the Company issued 7,288,701 and 119,338 shares of common stock, respectively, pursuant to provisions for exercise of stock options under its stock option plans. During the six months ended October 31, 2001, the Company acquired

9,688,400 shares of its common stock at an aggregate cost of \$351,845. During the six months ended October 31, 2000, the Company acquired 13,628,400 shares of its common stock at an aggregate cost of \$222,816.

7. CompuServe Corporation (CompuServe), certain current and former officers and directors of CompuServe and the Company were named as defendants in six lawsuits in state and Federal courts in Columbus, Ohio. All suits alleged similar violations of the Securities Act of 1933 based on assertions of omissions and misstatements of fact in connection with CompuServe's public filings related to its initial public offering in April 1996. One state lawsuit brought by the Florida State Board of Administration also alleged certain oral omissions and misstatements in connection with such offering. Relief sought in the lawsuits was unspecified, but included pleas for rescission and damages.

In the class action pending in state court, the court issued, in November 2000, its order approving a settlement pursuant to which the defendants agreed to pay a gross settlement amount of \$9,500. Payment of plaintiffs' attorneys' fees and expenses were to be paid out of the gross settlement fund. The gross settlement fund was paid in its entirety by the Company's insurance carrier. The agreement to settle and payment of the gross settlement fund are not admissions of the validity of any claim or any fact alleged by the plaintiffs and defendants continue to deny any wrongdoing and any liability.

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

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8. The Company's comprehensive income is comprised of net earnings (loss), foreign currency translation adjustments and the change in the net unrealized gain (loss) on marketable securities. The components of comprehensive income (loss) during the three and six months ended October 31, 2001 and 2000 were:

	Three months ended		Six months ended	
	October 31,		October 31,	
	2001	2000	2001	2000
Net earnings (loss)	\$ (28,011)	\$ (49,655)	\$ (58,795)	\$ (101,401)
Change in net unrealized gain (loss) on marketable securities	27,317	(5,670)	25,606	(1,613)
Change in foreign currency translation adjustments	(4,553)	(5,017)	(3,729)	(6,175)
Comprehensive income (loss)	<u>\$ (5,247)</u>	<u>\$ (60,342)</u>	<u>\$ (36,918)</u>	<u>\$ (109,189)</u>

9. In May 2001, the Company elected early adoption of Statement of Financial Accounting Standards No. 141, "Business Combinations," and No. 142, "Goodwill and Other Intangible Assets" (SFAS 141 and 142). SFAS 141 addresses financial accounting and reporting for business combinations and replaces APB Opinion No. 16, "Business Combinations" (APB 16). SFAS 141 no longer allows the pooling of interests method of accounting for acquisitions, provides new recognition criteria for intangible assets and carries forward without reconsideration the guidance in APB 16 related to the application of the purchase method of accounting. SFAS 142 addresses financial accounting and reporting for acquired goodwill and other

intangible assets and replaces APB Opinion No. 17, "Intangible Assets." SFAS 142 addresses how intangible assets should be accounted for upon their acquisition and after they have been initially recognized in the financial statements. The new standards provide specific guidance on measuring goodwill for impairment annually using a two-step process.

As of May 1, 2001, the Company identified those intangible assets that remain separable under the provisions of SFAS 141 and those that are to be included in goodwill. In applying SFAS 142, the Company re-evaluated the useful lives of these separable intangible assets. The weighted average life of the remaining intangible assets with finite lives is 10 years. In the year of adoption, SFAS 142 requires the first step of the goodwill impairment test to be completed within the first six months and the final step to be completed within twelve months of adoption. The first step of the test was completed during the quarter ended October 31, 2001 and no indications of goodwill impairment were found; therefore, step two of the goodwill impairment test is not applicable.

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Had the provisions of SFAS 141 and 142 been applied for the three and six months ended October 31, 2000, the Company's net loss and net loss per share would have been as follows:

	Three months ended ----- October 31, 2000 -----		Six months ended ----- October 31, 2000 -----	
	Net loss -----	Per Share -----	Net loss -----	Per share -----
Net loss:				
As reported	\$ (49,655)	\$ (.27)	\$ (101,401)	\$ (.55)
Add amortization (net of tax):				
Goodwill	6,981	.04	14,141	.08
Assembled workforce	4,088	.02	7,704	.04
Management infrastructure	226	--	451	--
Trade name	430	--	861	--
	-----	-----	-----	-----
Pro forma net loss	\$ (37,930)	\$ (.21)	\$ (78,244)	\$ (.43)
	=====	=====	=====	=====

Intangible assets consist of the following:

	October 31, 2001 -----		April 30, 2001 -----	
	Gross ----- Carrying ----- Amount -----	Accumulated ----- Amortization -----	Gross ----- Carrying ----- Amount -----	Accumulated ----- Amortization -----
Amortized intangible assets:				
Customer relationships	\$405,649	\$ (81,395)	\$ 397,049	\$ (61,036)
Noncompete agreements	20,587	(2,443)	17,269	(1,842)
Unamortized intangible assets:				
Trade name	55,637	(4,868)	55,637	(4,868)
	-----	-----	-----	-----
Total intangible assets	\$481,873	\$ (88,706)	\$ 469,955	\$ (67,746)

Changes in the carrying amount of goodwill for the six months ended October 31, 2001, are as follows by segment:

	April 30, ----- 2001 ----	Acquisitions -----	Other -----	October 31, ----- 2001 ----
U.S. tax operations	\$126,829	\$ 1,883	\$ --	\$128,712
International tax operations	5,755	--	28	5,783
Mortgage operations	152,467	--	--	152,467
Investment services	172,592	--	(113)	172,479
Business services	191,974	29,152	--	221,126
	-----	-----	-----	-----
Total goodwill	\$649,617	\$ 31,035	\$ (85)	\$680,567
	=====	=====	=====	=====

Amortization of intangible assets for the three and six months ended October 31, 2001 was \$10,557 and \$20,960, respectively. Estimated amortization of intangible assets for fiscal years 2002, 2003, 2004, 2005 and 2006 is \$42,258, \$41,616, \$41,616, \$41,538 and \$40,115, respectively.

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10. Included in Marketable securities-trading and Investments in available-for-sale marketable securities on the consolidated balance sheet are residual interests in securitizations (residuals) of real estate mortgage investment conduits (REMICs). The fair value of the residuals at October 31, 2001 and April 30, 2001 was \$284,673 and \$238,600, respectively. The Company received proceeds from net interest margin (NIM) securitizations of \$390,031, servicing fees of \$75 and cash flows from interest-only strips of \$3,868 from the securitization trusts during the six months ended October 31, 2001.

Mortgage servicing rights (MSRs) are included in other assets on the consolidated balance sheet. The fair value of MSRs at October 31, 2001 and April 30, 2001 was \$77,803 and \$61,796, respectively. Additions to and amortization of MSRs for the six months ended October 31, 2001 were \$28,786 and \$12,779, respectively.

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

Estimated annual prepayments	23% to 90%
Estimated annual credit losses	3.5% to 6.5%
Discount rate - residual interests	12% to 30%
Discount rate - MSRs	12.8%

At October 31, 2001, the sensitivities of the current fair value of the residuals and MSRs to 10% and 20% adverse changes in the above key assumptions are as follows:



	Residential Mortgage Loans		
	Cross-		Servicing
	Collateralized	NIMs	Asset
	-----	----	-----
Carrying amount/fair value of residuals	\$ 66,437	\$ 218,236	\$ 77,803
Weighted average life (in years)	3.4	2.6	2.3
Annual prepayments:			
Adverse 10% - \$ impact on fair value	\$ (869)	\$ (20,408)	\$ (8,485)
Adverse 20% - \$ impact on fair value	(1,589)	(23,901)	(15,078)
Annual credit losses:			
Adverse 10% - \$ impact on fair value	\$ (2,166)	\$ (27,751)	Not applicable
Adverse 20% - \$ impact on fair value	(4,327)	(50,282)	Not applicable
Discount rate:			
Adverse 10% - \$ impact on fair value	\$ (2,280)	\$ (7,002)	\$ (1,397)
Adverse 20% - \$ impact on fair value	(4,446)	(13,257)	(2,895)
Variable interest rates:			
Adverse 10% - \$ impact on fair value	\$ (117)	\$ (11,279)	\$ 186
Adverse 20% - \$ impact on fair value	(329)	(25,821)	402

These sensitivities are hypothetical and should be used with caution. As the figures indicate, changes in fair value based on a 10% variation in assumptions generally cannot be

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extrapolated because the relationship of the change in assumption to the change in fair value may not be linear. Also in this table, the effect of a variation of a particular assumption on the fair value of the retained interest is calculated without changing any other assumptions; in reality, changes in one factor may result in changes in another, which might magnify or counteract the sensitivities.

11. In May 2001, the Company adopted Emerging Issues Task Force (EITF) Issue 99-20, "Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interests in Securitized Financial Assets" (EITF 99-20). EITF 99-20 addresses how the holder of beneficial interests should recognize cash flows on the date of the transaction, how interest income is recognized over the life of the interests and when securities must be written down to fair value due to other than temporary impairments. The adoption of EITF 99-20 did not have a material impact on the consolidated financial statements.
12. In August 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" (SFAS 144), effective for the Company's fiscal year ending April 30, 2003. This statement supercedes Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of," (SFAS 121) and the accounting and reporting provisions of Accounting Principles Board Opinion No. 30, "Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions," for the disposal of a segment of a business. SFAS 144 establishes a single accounting model, based on the framework established in SFAS 121, for long-lived assets to be disposed of by sale. The Company has not yet determined the effect of SFAS 144 on the consolidated financial statements.
13. On May 1, 2001, the Company adopted a new methodology for allocation of corporate services and support costs to business units. The change was made to more accurately reflect each business segment's performance. Prior year results have been restated based on this allocation methodology. Information concerning the Company's operations by reportable operating segments for the three and six months ended October 31, 2001 and 2000 is as

follows:

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	Three months ended		Six months ended	
	October 31,		October 31,	
	2001	2000	2001	2000
Revenues:				
U.S. tax operations	\$ 28,015	\$ 26,403	\$ 47,994	\$ 37,753
International tax operations	13,709	14,899	18,541	19,798
Mortgage operations	180,821	84,690	329,146	165,290
Investment services	64,827	131,573	133,752	262,240
Business services	91,779	78,267	171,761	154,364
Unallocated corporate	(422)	1,642	1,660	2,139
	<u>\$ 378,729</u>	<u>\$ 337,474</u>	<u>\$ 702,854</u>	<u>\$ 641,584</u>
Earnings (loss) from:				
U.S. tax operations	\$ (104,225)	\$ (85,724)	\$ (185,393)	\$ (171,286)
International tax operations	(991)	(851)	(6,644)	(7,206)
Mortgage operations	93,191	20,433	159,970	41,963
Investment services	(9,135)	11,779	(15,233)	23,462
Business services	2,554	(1,030)	383	(4,264)
Unallocated corporate	(9,818)	(7,359)	(15,257)	(11,900)
Interest exp.-acquisition debt	(19,360)	(24,484)	(40,758)	(51,772)
	<u>(47,784)</u>	<u>(87,236)</u>	<u>(102,932)</u>	<u>(181,003)</u>
Investment income, net	1,094	2,536	2,212	5,255
Intercompany interest	(387)	(1,656)	1,905	(601)
Loss before income tax benefit	<u>\$ (47,077)</u>	<u>\$ (86,356)</u>	<u>\$ (98,815)</u>	<u>\$ (176,349)</u>

Intercompany interest represents net interest expense charged to financial related businesses for corporate cash that was borrowed to fund their operating activities and net unallocated interest expense attributable to commitment fees on the unused portion of the Company's credit facility.

14. Block Financial Corporation (BFC) is an indirect, wholly owned subsidiary of the Company. BFC is the Issuer and the Company is the Guarantor of the 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.

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#### Condensed Consolidating Statements of Operations

	Three months ended October 31, 2001				
	H&R Block, Inc. (Guarantor)	BFC (Issuer)	Other Subsidiaries	Elims	Consolidated H&R Block
Total revenues	\$ --	\$ 246,405	\$ 132,324	\$ --	\$ 378,729

Expenses:					
Compensation & benefits	--	78,576	122,111	--	200,687
Occupancy & equipment	--	16,223	45,526	--	61,749
Interest	--	25,918	3,867	--	29,785
Depreciation & amortization	--	16,827	17,502	--	34,329
Marketing & advertising	--	4,642	12,550	(101)	17,091
Supplies, freight & postage	--	2,621	6,849	--	9,470
Other	--	44,332	29,447	--	73,779
	--	189,139	237,852	(101)	426,890
Operating earnings (loss)	--	57,266	(105,528)	101	(48,161)
Other income, net	(47,077)	--	1,084	47,077	1,084
Earnings (loss) before income taxes (benefit)	(47,077)	57,266	(104,444)	47,178	(47,077)
Income taxes (benefit)	(19,066)	10,862	(29,969)	19,107	(19,066)
Net earnings (loss)	\$ (28,011)	\$ 46,404	\$ (74,475)	\$ 28,071	\$ (28,011)

Three months ended October 31, 2000

	H&R Block, Inc. (Guarantor)	BFC (Issuer)	Other Subsidiaries	Elims	Consolidated H&R Block
Total revenues	\$ --	\$ 218,964	\$ 118,643	\$ (133)	\$ 337,474
Expenses:					
Compensation & benefits	--	74,540	98,360	--	172,900
Occupancy & equipment	--	12,926	43,308	--	56,234
Interest	--	58,478	5,495	--	63,973
Depreciation & amortization	--	22,062	26,623	--	48,685
Marketing & advertising	--	5,309	9,523	(104)	14,728
Supplies, freight & postage	--	4,350	5,655	--	10,005
Other	--	37,613	22,376	(133)	59,856
	--	215,278	211,340	(237)	426,381
Operating earnings (loss)	--	3,686	(92,697)	104	(88,907)
Other income, net	(86,356)	22	2,529	86,356	2,551
Earnings (loss) before income taxes (benefit)	(86,356)	3,708	(90,168)	86,460	(86,356)
Income taxes (benefit)	(36,701)	5,952	(42,697)	36,745	(36,701)
Net earnings (loss)	\$ (49,655)	\$ (2,244)	\$ (47,471)	\$ 49,715	\$ (49,655)

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Six months ended October 31, 2001

	H&R Block, Inc. (Guarantor)	BFC (Issuer)	Other Subsidiaries	Elims	Consolidated H&R Block
Total revenues	\$ --	\$ 466,454	\$ 236,453	\$ (53)	\$ 702,854
Expenses:					
Compensation & benefits	--	155,157	221,559	--	376,716
Occupancy & equipment	--	30,900	90,528	--	121,428
Interest	--	54,745	4,845	--	59,590
Depreciation & amortization	--	33,649	35,279	--	68,928
Marketing & advertising	--	7,904	16,381	(202)	24,083
Supplies, freight & postage	--	7,228	8,815	--	16,043
Other	--	85,948	51,351	(53)	137,246
	--	375,531	428,758	(255)	804,034
Operating earnings (loss)	--	90,923	(192,305)	202	(101,180)
Other income, net	(98,815)	--	2,365	98,815	2,365
Earnings (loss) before income taxes (benefit)	(98,815)	90,923	(189,940)	99,017	(98,815)
Income taxes (benefit)	(40,020)	25,671	(65,773)	40,102	(40,020)
Net earnings (loss)	\$ (58,795)	\$ 65,252	\$ (124,167)	\$ 58,915	\$ (58,795)

## Six months ended October 31, 2000

	H&R Block, Inc. (Guarantor)	BFC (Issuer)	Other Subsidiaries	Elims	Consolidated H&R Block
Total revenues	\$ --	\$ 431,291	\$ 210,405	\$ (112)	\$ 641,584
Expenses:					
Compensation & benefits	--	144,134	175,306	--	319,440
Occupancy & equipment	--	26,170	90,288	--	116,458
Interest	--	120,081	7,090	--	127,171
Depreciation & amortization	--	44,068	52,074	--	96,142
Marketing & advertising	--	11,134	13,616	(248)	24,502
Supplies, freight & postage	--	8,591	8,993	--	17,584
Other	--	67,351	54,700	(163)	121,888
	--	421,529	402,067	(411)	823,185
Operating earnings (loss)	--	9,762	(191,662)	299	(181,601)
Other income, net	(176,349)	--	5,252	176,349	5,252
Earnings (loss) before income taxes (benefit)	(176,349)	9,762	(186,410)	176,648	(176,349)
Income taxes (benefit)	(74,948)	12,970	(88,045)	75,075	(74,948)
Net earnings (loss)	\$(101,401)	\$ (3,208)	\$ (98,365)	\$ 101,573	\$(101,401)

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## Condensed Consolidating Balance Sheets

## October 31, 2001

	H&R Block, Inc. (Guarantor)	BFC (Issuer)	Other Subsidiaries	Elims	Consolidated H&R Block
Cash & cash equivalents	\$ --	\$ 502,561	\$ 96,441	\$ --	\$ 599,002
Receivables from customers, brokers and dealers	--	925,219	--	--	925,219
Receivables	1,374	152,911	169,766	(800)	323,251
Intangible assets	--	236,842	156,325	--	393,167
Goodwill	--	322,199	358,368	--	680,567
Investments in subsidiaries	2,415,725	215	2,472	(2,417,299)	1,113
Other assets	--	903,664	373,419	229	1,277,312
Total assets	\$ 2,417,099	\$ 3,043,611	\$ 1,156,791	\$ (2,417,870)	\$ 4,199,631
Notes payable	\$ --	\$ 881,697	\$ --	\$ --	\$ 881,697
Accts. payable to customers, brokers and dealers	--	857,349	--	--	857,349
Long-term debt	--	746,575	102,708	--	849,283
Other liabilities	4,774	244,870	448,286	(380)	697,550
Net intercompany advances	1,498,573	(51,495)	(1,445,111)	(1,967)	--
Stockholders' equity	913,752	364,615	2,050,908	(2,415,523)	913,752
Total liabilities and stockholders' equity	\$ 2,417,099	\$ 3,043,611	\$ 1,156,791	\$ (2,417,870)	\$ 4,199,631

## April 30, 2001

	H&R Block, Inc. (Guarantor)	BFC (Issuer)	Other Subsidiaries	Elims	Consolidated H&R Block
Cash & cash equivalents	\$ --	\$ 167,139	\$ 104,674	\$ --	\$ 271,813
Receivables from customers, brokers and dealers	--	1,310,804	--	--	1,310,804
Receivables	--	172,409	200,814	--	373,223
Intangible assets	--	251,492	150,717	--	402,209
Goodwill	--	322,199	327,418	--	649,617

Investments in subsidiaries	2,452,643	215	262	(2,452,643)	477
Other assets	--	720,004	394,431	(954)	1,113,481
	-----	-----	-----	-----	-----
Total assets	\$ 2,452,643	\$ 2,944,262	\$ 1,178,316	\$ (2,453,597)	\$ 4,121,624
	=====	=====	=====	=====	=====
Notes payable	\$ --	\$ --	\$ --	\$ --	\$ --
Accts. payable to customers, brokers and dealers	--	1,058,000	--	--	1,058,000
Long-term debt	--	746,250	124,724	--	870,974
Other liabilities	4,763	228,847	782,058	3,241	1,018,909
Net intercompany advances	1,274,139	637,487	(1,907,206)	(4,420)	--
Stockholders' equity	1,173,741	273,678	2,178,740	(2,452,418)	1,173,741
	-----	-----	-----	-----	-----
Total liabilities and stockholders' equity	\$ 2,452,643	\$ 2,944,262	\$ 1,178,316	\$ (2,453,597)	\$ 4,121,624
	=====	=====	=====	=====	=====

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## Condensed Consolidating Statements of Cash Flows

Six months ended October 31, 2001					
	H&R Block, Inc. (Guarantor)	BFC (Issuer)	Other Subsidiaries	Elims	Consolidated H&R Block
	-----	-----	-----	-----	-----
Net cash provided by (used in) operating activities	\$ 40,442	\$ 152,534	\$ (392,056)	\$ --	\$ (199,080)
	-----	-----	-----	-----	-----
Cash flows from investing:					
Purchase of AFS securities	--	--	(1,045)	--	(1,045)
Maturities of AFS securities	--	7,722	19,776	--	27,498
Purchase property & equipment	--	(17,549)	(16,175)	--	(33,724)
Payments for business acq	--	--	(23,468)	--	(23,468)
Net intercompany advances	224,434	(688,982)	464,548	--	--
Other, net	--	--	(13,028)	--	(13,028)
	-----	-----	-----	-----	-----
Net cash provided by (used in) investing activities	224,434	(698,809)	430,608	--	(43,767)
	-----	-----	-----	-----	-----
Cash flows from financing:					
Repayments of notes payable	--	(3,916,323)	--	--	(3,916,323)
Proceeds from notes payable	--	4,798,020	--	--	4,798,020
Payments on acquisition debt	--	--	(47,179)	--	(47,179)
Dividends paid	(57,294)	--	--	--	(57,294)
Pmts. to acquire treasury shares	(351,845)	--	--	--	(351,845)
Proceeds from stock option exercises	144,263	--	--	--	144,263
Other, net	--	--	394	--	394
	-----	-----	-----	-----	-----
Net cash provided by (used in) financing activities	(264,876)	881,697	(46,785)	--	570,036
	-----	-----	-----	-----	-----
Net increase(decrease) in cash	--	335,422	(8,233)	--	327,189
Cash at beginning of the year	--	167,139	104,674	--	271,813
	-----	-----	-----	-----	-----
Cash at end of the year	\$ --	\$ 502,561	\$ 96,441	\$ --	\$ 599,002
	=====	=====	=====	=====	=====

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Six months ended October 31, 2000					
	H&R Block, Inc. (Guarantor)	BFC (Issuer)	Other Subsidiaries	Elims	Consolidated H&R Block
	-----	-----	-----	-----	-----
Net cash provided by (used in) operating activities	\$ 38	\$ (61,901)	\$ (317,719)	\$ --	\$ (379,582)

Cash flows from investing:					
Purchase of AFS securities	--	--	(2,432)	--	(2,432)
Maturities of AFS securities	--	5,429	4,661	--	10,090
Purchase property & equipment	--	(12,101)	(11,720)	--	(23,821)
Payments for business acq.	--	--	(10,659)	--	(10,659)
Net intercompany advances	274,834	(639,173)	364,339	--	--
Other, net	--	--	(18,114)	--	(18,114)
Net cash provided by (used in) investing activities	274,834	(645,845)	326,075	--	(44,936)
Cash flows from financing:					
Repayments of notes payable	--	(8,197,821)	--	--	(8,197,821)
Proceeds from notes payable	--	8,828,716	--	--	8,828,716
Payments on acquisition debt	--	--	(63,993)	--	(63,993)
Dividends paid	(53,764)	--	--	--	(53,764)
Pmts. to acquire treasury shares	(222,816)	--	--	--	(222,816)
Proceeds from stock option exercises	1,708	--	--	--	1,708
Other, net	--	--	266	--	266
Net cash provided by (used in) financing activities	(274,872)	630,895	(63,727)	--	292,296
Net decrease in cash	--	(76,851)	(55,371)	--	(132,222)
Cash at beginning of the year	--	256,823	123,078	--	379,901
Cash at end of the year	\$ --	\$ 179,972	\$ 67,707	\$ --	\$ 247,679

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

### GENERAL

#### OVERVIEW OF REPORTABLE OPERATING SEGMENTS

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

**U.S. tax operations:** This segment primarily consists of the Company's traditional tax business - which served 16.9 million taxpayers in fiscal year 2001, more than any other company.

**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.

**Mortgage operations:** This segment is primarily engaged in the origination, servicing, and sale of nonconforming and conforming mortgage loans.

**Investment services:** This segment is primarily engaged in offering investment advice and services.

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

#### GENERAL BUSINESS

As the Company completes the second quarter of its fiscal year, management has been focusing on preparation for the upcoming tax season. During the quarter, U.S. tax operations held tuition tax schools, which provide many of its tax professionals for the upcoming tax season. Enrollment in tuition tax schools was up 14.5% over the prior year. This tax season U.S. tax operations will be offering new products to bring additional value to H&R Block's client base. For the first time, tax offices will be offering a new Refund Anticipation Loan

(RAL) product - an "instant RAL." With an "instant RAL," clients who qualify can receive a check for loan proceeds upon the completion of their tax return and will not have to return to the office a second time to pick up their check. In addition, tax offices will be offering a new product to those clients whose tax returns reflect a balance due the Internal Revenue Service (IRS). Through a relationship with Household Bank, f.s.b (Household), clients who qualify can receive a line of credit from Household that can be used to pay a balance due the IRS. This line of credit will have "same as cash" terms for 90 days. Unlike the traditional RAL products, the Company will not have a participation interest in these lines of credit. The e-solutions business will also be offering new products to its clients. This tax season, both software and online users will have an opportunity to have an H&R Block tax professional review their return and provide feedback to the client prior to filing. In addition, all software and online clients will have the opportunity to receive a free financial plan through Investment services.

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During calendar 2002, the Company plans to execute a net interest margin (NIM) transaction to securitize certain existing residual interests from previous NIM transactions in an effort to expedite receiving cash for the residual interests and to reduce the total value of residual interests on the balance sheet. In addition, the Company's residual interests have been performing better than expected with higher excess retained interest spread and lower loan losses and prepayments to date than originally projected. As a result of these items, in accordance with Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities," the Company recorded a \$45.1 million pretax mark-to-market adjustment in other comprehensive income (loss) during the second quarter. Beginning in the third quarter, the Company will also be adjusting the amount of interest income recognized on certain residual interests to reflect these new conditions. This adjustment will result in higher interest income earned throughout the remaining life of those residual interests.

# RESULTS OF OPERATIONS

The analysis that follows should be read in conjunction with the tables below and the Consolidated Statements of Operations found on page 2. All amounts in the following tables are in thousands.

On May 1, 2001, the Company adopted a new methodology for allocation of corporate services and support costs to business units. The change was made to more accurately reflect each business segment's performance. Prior year results have been restated based on this allocation methodology.

CONSOLIDATED H&R BLOCK, INC.

Consolidated H&R Block, Inc. - Three-month comparison to prior year

	Three months ended		Variance	
	October 31,		Better/(worse)	
	2001	2000	\$	%
	----	----	-	-
Revenues	\$ 378,729	\$ 337,474	\$ 41,255	12.2%
	-----	-----	-----	
Pretax loss	(47,077)	(86,356)	39,279	45.5%
Net loss	\$ (28,011)	\$ (49,655)	\$ 21,644	43.6%
	=====	=====	=====	

-----

Consolidated revenues for the three months ended October 31, 2001 increased 12.2% primarily due to the Mortgage operations segment, which increased revenues by \$96.1 million, or 113.5%, over the prior year. The Business services segment also contributed to the increase in revenues. These increases were partially offset by the decline in revenues from Investment services.

The Company reported a pretax loss of \$47.1 million for the second quarter of fiscal 2002 compared to a loss of \$86.4 million in the prior year. The improvement over the prior year is primarily due to the Mortgage operations segment that reported earnings of \$93.2 million, a \$72.8 million improvement over last year. Increased losses from Investment services and U.S.

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tax operations somewhat offset the increase from Mortgage operations. In addition, the Company's increase over the prior year's second quarter benefited \$15.4 million from the adoption of SFAS 141 and 142, which is included in the respective reportable segments.

The Company's performance as measured by earnings before interest (including interest expense on acquisition debt, investment income and interest allocated to operating business units), taxes, depreciation and amortization (EBITDA) improved \$20.0 million to a positive \$5.9 million compared to a negative \$14.1 million in the prior year's second quarter. EBITDA is utilized by management to evaluate the performance of its operating segments because many of the segments reflect substantial amortization of acquired intangible assets and goodwill resulting from recent acquisitions. Management believes EBITDA is a good measure of cash flow generation because the Company's operations have not historically been capital intensive, and it also removes the effects of purchase accounting. The calculation of EBITDA may not be comparable to the calculation of EBITDA by other companies.

In addition, the Company continues to measure its performance based on the calculation of earnings excluding the after-tax impact of amortization of acquired intangible assets. The net loss, excluding the after-tax impact of this expense, was \$18.5 million, or \$.10 per share in the second quarter, compared to \$28.6 million, or \$.16 per share in last year's second quarter.

The net loss was \$28.0 million, or \$.15 per share compared to a loss of \$49.7 million, or \$.27 per share in the second quarter of fiscal 2001. The three months ended October 31, 2001 reflect the adoption of SFAS 141 and 142 effective May 1, 2001 related to business combinations, goodwill and other intangible assets, which eliminates goodwill and certain other intangible asset amortization. Of the improvement over the prior year's second quarter, \$11.7 million (net of taxes), or \$.06 per share, relates to the adoption of SFAS 141 and 142.

The effective income tax rate decreased from 42.5% last year to 40.5% this year. The decrease in the effective tax rate is primarily due to the reduction in non-deductible goodwill and other intangible asset amortization related to the adoption of SFAS 141 and 142 on May 1, 2001.

Consolidated H&R Block, Inc. - Three-month comparison to preceding quarter

-----

	Fiscal Year		Variance	
	2002 Quarter		Better/ (worse)	
	2nd	1st	\$	%
	---	---	-	-
Revenues	\$ 378,729	\$ 324,125	\$ 54,604	16.9%
	-----	-----	-----	
Pretax loss	(47,077)	(51,738)	4,661	9.0%
Net loss	\$ (28,011)	\$ (30,784)	\$ 2,773	9.0%
	=====	=====	=====	



-----

Consolidated revenues for the three months ended October 31, 2001 increased 16.9% over the three months ended July 31, 2001 primarily due to the Mortgage operations and Business services segments, increasing \$32.5 million and \$11.8 million, respectively, over the first quarter. International and U.S. tax operations also contributed to the increase in revenues. The

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Company reported a pretax loss of \$47.1 million for the second quarter of fiscal 2002 compared to a loss of \$51.7 million in the first quarter. The quarter-over-quarter improvement is primarily due to the Mortgage operations segment, with a \$26.4 million improvement over last quarter. This increase was partially offset by increased losses from U.S. tax operations as it prepares for the upcoming tax season. The net loss was \$28.0 million, or \$.15 per share compared to a loss of \$30.8 million, or \$.17 per share in the first quarter.

The Company's performance as measured by EBITDA improved to a positive \$5.9 million compared to \$849 thousand for the three months ended July 31, 2001. The Company's net loss, excluding the after-tax impact of the amortization of acquired intangible assets, was \$18.5 million, or \$.10 per share in the second quarter, compared to \$21.4 million, or \$.12 per share in the first quarter.

Consolidated H&R Block, Inc. - Six-month comparison to prior year

-----

	Six months ended ----- October 31, -----		Variance ----- Better/(worse) -----	
	2001 ----	2000 ----	\$ --	% --
Revenues	\$ 702,854 -----	\$ 641,584 -----	\$ 61,270 -----	9.6%
Pretax loss	(98,815)	(176,349)	77,534	44.0%
Net loss	\$ (58,795) =====	\$(101,401) =====	\$ 42,606 =====	42.0%

-----

Consolidated revenues for the six months ended October 31, 2001 increased 9.6% primarily due to the Mortgage operations segment, which increased revenues by \$163.9 million, or 99.1%, over the prior year. This increase was largely offset by the decline in revenues from Investment services. The Business services and U.S. tax operations segments also contributed increased revenues during the six month period.

The Company reported a pretax loss of \$98.8 million for the six months ended October 31, 2001 compared to a loss of \$176.3 million in the prior year. The improvement over the prior year is primarily due to the Mortgage operations segment that reported earnings of \$160.0 million, a \$118.0 million improvement over last year. Increased losses from Investment services and U.S. tax operations somewhat offset the increase from Mortgage operations. In addition, the Company's increase over the prior year benefited \$30.2 million from the adoption of SFAS 141 and 142, which is included in the respective reportable segments.

The Company's performance as measured by EBITDA improved \$39.8 million to a

positive \$6.8 million compared to a negative \$33.1 million for the six months ended October 31, 2000. The Company's net loss, excluding the after-tax impact of amortization of acquired intangible assets, was \$39.9 million, or \$.22 per share in the current year, compared to \$59.7 million, or \$.32 per share last year.

The net loss was \$58.8 million, or \$.32 per share compared to a loss of \$101.4 million, or \$.55 per share in the six months ended October 31, 2000. The six months ended October 31, 2001

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reflect the adoption of SFAS 141 and 142 effective May 1, 2001 related to business combinations, goodwill and other intangible assets, which eliminates goodwill and certain other intangible asset amortization. Of the improvement over the prior year, \$23.2 million (net of taxes), or \$.13 per share, relates to the adoption of SFAS 141 and 142.

The effective income tax rate decreased from 42.5% last year to 40.5% this year. The decrease in the effective tax rate is primarily due to the reduction in non-deductible goodwill and other intangible asset amortization related to the adoption of SFAS 141 and 142 on May 1, 2001.

#### U.S. TAX OPERATIONS

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

#### U.S. Tax Operations - Three-month comparison to prior year

	Three months ended		Variance	
	October 31,		Better/(worse)	
	2001	2000	\$	%
Tax preparation and related fees	\$ 11,396	\$ 9,368	\$ 2,028	21.7%
Royalties	1,470	1,772	(302)	-17.0%
RAL participation fees	14	5	9	180.0%
Software sales	722	1,055	(333)	-31.6%
Other	14,413	14,203	210	1.5%
Total revenues	28,015	26,403	1,612	6.1%
Compensation & benefits	34,491	25,509	(8,982)	-35.2%
Occupancy & equipment	33,828	32,147	(1,681)	-5.2%
Depreciation & amortization	7,429	11,137	3,708	33.3%
Cost of software sales	452	287	(165)	-57.5%
Bad debt expense	(1,042)	325	1,367	--
Supplies, freight & postage	3,151	3,266	115	3.5%
Other	15,098	15,263	165	1.1%
Allocated corporate & shared costs	38,833	24,193	(14,640)	-60.5%

Total expenses	----- 132,240 -----	----- 112,127 -----	----- (20,113) -----	-17.9%
Pretax loss	=====	=====	=====	-21.6%

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Tax preparation and related fees increased 21.7% to \$11.4 million for the three months ended October 31, 2001 compared to the prior year. This increase is primarily attributable to a 4.1% increase in company-owned returns prepared and a 16.9% increase in the average charge on those returns. Company-owned tax returns prepared during the second quarter of fiscal 2002 were 65 thousand compared to 62 thousand tax returns prepared last year. The average charge earned this year was \$181.33 compared to \$155.17 earned last year. The overall increase in tax returns prepared is partially attributed to the federal income tax rebate program this summer where taxpayers needed to file their 2000 tax returns with the IRS in order to be eligible for the rebate.

Total expenses of \$132.2 million during the three months ended October 31, 2001 were \$20.1 million, or 17.9% higher than last year. The increase in expenses is attributable to a \$14.6 million increase in allocated corporate and shared costs principally due to earlier technology development and marketing costs, \$7.2 million in payroll taxes associated with seasonal stock option exercises compared to virtually none last year, a \$1.7 million increase in office, facility and equipment costs, and \$1.0 million in higher tuition tax school wages. The increase in technology and marketing costs is partly attributable to earlier preparation and operational readiness for the upcoming tax season. This early preparation should result in reduced levels of spending during the remainder of the year. Amortization expense benefited from the early adoption of SFAS No. 141 and 142, resulting in lower amortization of goodwill when compared to the prior year by \$2.8 million. Additionally, depreciation and amortization expense was lower by \$0.9 million this year due to certain assets becoming fully depreciated at the end of the prior fiscal year.

The pretax loss of \$104.2 million for the quarter ended October 31, 2001 increased 21.6% from a loss of \$85.7 million in the same period a year ago. EBITDA decreased \$21.3 million to a negative \$92.3 million in the second quarter of fiscal year 2002.

Due to the seasonal nature of this segment's business, second quarter results are not indicative of the expected results for the entire fiscal year.

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#### U.S. Tax Operations - Three-month comparison to preceding quarter

	Fiscal Year		Variance	
	-----		-----	
	2002 Quarter		Better/ (worse)	
	-----		-----	
	2nd	1st	\$	%
	---	---	-	-
Tax preparation and related fees	\$ 11,396	\$ 11,348	\$ 48	0.4%
Royalties	1,470	1,096	374	34.1%
RAL participation fees	14	282	(268)	-95.0%

Software sales	722	773	(51)	-6.6%
Other	14,413	6,480	7,933	122.4%
	-----	-----	-----	
Total revenues	28,015	19,979	8,036	40.2%
	=====	=====	=====	
Compensation & benefits	34,491	23,069	(11,422)	-49.5%
Occupancy & equipment	33,828	33,126	(702)	-2.1%
Depreciation & amortization	7,429	7,304	(125)	-1.7%
Cost of software sales	452	319	(133)	-41.7%
Bad debt expense	(1,042)	881	1,923	--
Supplies, freight & postage	3,151	1,536	(1,615)	-105.1%
Other	15,098	8,947	(6,151)	-68.8%
Allocated corporate & shared costs	38,833	25,965	(12,868)	-49.6%
	-----	-----	-----	
Total expenses	132,240	101,147	(31,093)	-30.7%
	-----	-----	-----	
Pretax loss	\$ (104,225)	\$ (81,168)	\$ (23,057)	-28.4%
	=====	=====	=====	

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Tax preparation and related fees of \$11.4 million during the three months ended October 31, 2001 were slightly better than the three months ended July 31, 2001. This increase was attributable to a 27.5% decrease in company-owned returns prepared offset by a similar increase in the average charge on those returns. Company-owned tax returns prepared during the second quarter of fiscal 2002 were 65 thousand compared to 90 thousand tax returns prepared during the first quarter. The average charge earned during the second quarter was \$181.33 compared to \$144.49 earned the first quarter. Decreases in tax returns prepared during the second quarter compared to the first quarter are normal, as is the increase in average charge. More returns are normally prepared in the first quarter due to the August due date for the filing of individual tax returns for which an automatic extension of time to file was obtained.

Tuition tax school fees, included in other revenues, increased \$6.3 million during the three months ended October 31, 2001 compared to the three months ended July 31, 2001. The second quarter of each fiscal year is when the majority of tuition tax school classes commence and fees are collected.

Total expenses increased 30.7% to \$132.2 million during the three months ended October 31, 2001 compared to the three months ended July 31, 2001. This increase is due to the following: (1) a \$12.9 million increase in allocated corporate and shared costs primarily related to investments in technology and marketing in preparation for the upcoming tax season, (2) a \$7.2 million increase in payroll taxes associated with seasonal stock option exercises (seasonal stock options can only be exercised September through November of each year), (3) a \$4.1 million

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increase in marketing and advertising costs related to tuition tax schools, (4) a \$3.6 million increase in wages associated with tuition tax schools, (5) a \$1.4 million increase in supplies associated with tuition tax schools and general usage and (6) a \$1.2 million increase in travel and related costs associated with a national sales meeting. Offsetting these increases were lower production wages, bad debt and bank service fees.

The pretax loss for the three months ended October 31, 2001 was \$104.2 million; an increase of 28.4% compared to the pretax loss of \$81.2 million for the three months ended July 31, 2001. EBITDA decreased \$23.1 million to a negative \$92.3 million in the second quarter of fiscal year 2002 compared to a negative \$69.2 million in the first quarter.

U.S. Tax Operations - Six-month comparison to prior year

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	Six months ended		Variance	
	October 31,		Better/(worse)	
	2001	2000	\$	%
	----	----	-	-
Tax preparation and related fees	\$ 22,744	\$ 17,348	\$ 5,396	31.1%
Royalties	2,566	2,525	41	1.6%
RAL participation fees	296	200	96	48.0%
Software sales	1,495	1,115	380	34.1%
Other	20,893	16,565	4,328	26.1%
	-----	-----	-----	
Total revenues	47,994	37,753	10,241	27.1%
	=====	=====	=====	
Compensation & benefits	57,560	47,151	(10,409)	-22.1%
Occupancy & equipment	66,954	63,447	(3,507)	-5.5%
Depreciation & amortization	14,733	22,835	8,102	35.5%
Cost of software sales	771	633	(138)	-21.8%
Bad debt expense	(161)	400	561	--
Supplies, freight & postage	4,687	3,942	(745)	-18.9%
Other	24,045	23,193	(852)	-3.7%
Allocated corporate & shared costs	64,798	47,438	(17,360)	-36.6%
	-----	-----	-----	
Total expenses	233,387	209,039	(24,348)	-11.7%
	-----	-----	-----	
Pretax loss	\$ (185,393)	\$ (171,286)	\$ (14,107)	-8.2%
	=====	=====	=====	

Tax preparation and related fees increased 31.1% to \$22.7 million during the six months ended October 31, 2001 compared to the six months ended October 31, 2000. This increase is primarily attributable to a 6.3% increase in company-owned returns prepared combined with a 21.7% increase in the average charge on those returns. Company-owned tax returns prepared during the six months ended October 31, 2001 were 155 thousand compared to 146 thousand tax returns prepared during the same period last year. The average charge earned during the six months ended October 31, 2001 was \$159.98 compared to \$131.46 earned last year.

Tuition tax school fees, included in other revenues, increased \$800 thousand to \$7.6 million during the six months ended October 31, 2001 over the six months ended October 31, 2000. This 11.8% increase in tuition tax school fees is due to a 14.5% increase in enrollments this year.

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Other revenues (excluding tuition tax school fees) of \$13.3 million increased \$3.5 million, or 35.7% compared to the six months ended October 31, 2000. This increase is due to an increase of \$3.1 million in deferred Peace of Mind revenue recognized due to increased unit sales.

Total expenses increased 11.7% to \$233.4 million during the six months ended October 31, 2001 compared to the six months ended October 31, 2000. This increase is due to an increase of \$17.4 million in allocated and shared costs primarily related to earlier technology development and marketing costs, a \$7.2 million increase in payroll taxes associated with seasonal stock option exercises (there were virtually no seasonal exercises during the six months ended October 31, 2000), a \$3.1 million increase in office rent and facility expenses, and a \$1.1 million increase in wages associated with tuition tax schools. The increase in technology and marketing costs is partly attributable to earlier preparation and operational readiness for the upcoming tax season. This early preparation should result in reduced levels of spending during the remainder of the year. Offsetting these increases were lower depreciation and amortization expenses of \$8.1 million due to certain assets becoming fully depreciated at the end of the prior fiscal year and the early adoption of SFAS No. 141 and 142, resulting in the elimination of goodwill amortization.

The pretax loss for the six months ended October 31, 2001 was \$185.4 million, an increase of 8.2% compared to the pretax loss of \$171.3 million for the six months ended October 31, 2000. EBITDA decreased \$20.4 million to a negative \$161.6 million for the six months ended October 31, 2001 compared to a negative \$141.1 million last year.

## INTERNATIONAL TAX OPERATIONS

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

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### International Tax Operations - Three-month comparison to prior year

	Three months ended		Variance	
	October 31,		Better/(worse)	
	2001	2000	\$	%
	----	----	-	-
Canada	\$ 2,400	\$ 2,539	\$ (139)	-5.5%
Australia	10,947	11,790	(843)	-7.2%
United Kingdom	239	409	(170)	-41.6%
Overseas franchises	123	161	(38)	-23.6%
	-----	-----	-----	
Total revenues	13,709	14,899	(1,190)	-8.0%
	=====	=====	=====	
Canada	(4,018)	(4,638)	620	13.4%
Australia	4,160	4,933	(773)	-15.7%
United Kingdom	(396)	(419)	23	5.5%
Overseas franchises	(160)	(48)	(112)	-233.3%
Allocated corporate & shared costs	(577)	(679)	102	15.0%
	-----	-----	-----	
Pretax loss	\$ (991)	\$ (851)	\$ (140)	-16.5%
	=====	=====	=====	

Revenues decreased by 8.0% to \$13.7 million from \$14.9 million last year. The pretax loss increased by 16.5% to a loss of \$991 thousand from \$851 thousand last year.

The improved performance in Canada is primarily attributed to better business management and cost control.

The Australian results were negatively impacted by unfavorable exchange rates and a reduction of .3% in returns prepared for the same quarter last year.

The United Kingdom pretax loss improved by 5.5% due to the closure of unprofitable offices during the first quarter of fiscal year 2002.

The overseas franchise pretax profit decreased by 233.3%. This is driven by the return to normal historical business levels after the introduction of the child tax credit in Puerto Rico in the prior year.

International tax operations' EBITDA declined \$737 thousand to a negative \$229 thousand from a positive \$508 thousand in the prior year second quarter.

International Tax Operations - Three-month comparison to preceding quarter

	Fiscal Year		Variance	
	2002 Quarter		Better/ (worse)	
	2nd	1st	\$	%
	---	---	-	-
Canada	\$ 2,400	\$ 3,257	\$ (857)	-26.3%
Australia	10,947	543	10,404	-
United Kingdom	239	632	(393)	-62.2%
Overseas franchises	123	400	(277)	-69.3%
	-----	-----	-----	
Total revenues	13,709	4,832	8,877	183.7%
	=====	=====	=====	
Canada	(4,018)	(3,446)	(572)	-16.6%
Australia	4,160	(1,650)	5,810	--
United Kingdom	(396)	(179)	(217)	-121.2%
Overseas franchises	(160)	181	(341)	--
Allocated corporate & shared costs	(577)	(559)	(18)	-3.2%
	-----	-----	-----	
Pretax loss	\$ (991)	\$ (5,653)	\$ 4,662	82.5%
	=====	=====	=====	

Revenues increased 183.7% to \$13.7 million from \$4.8 million in the first quarter. The increase is driven by the beginning of the Australian tax season during this quarter.

The pretax loss improved by 82.5% to a loss of \$991 thousand. This is primarily driven by the beginning of the Australian tax season during the second quarter. The timing of certain expenses in Canadian operations and the return to normal historical business levels in the overseas franchise group partially offset the increase from Australia operations.

International tax operations' EBITDA improved 95.3% to a negative \$229 thousand from a negative \$4.9 million in the first quarter of fiscal 2002.

International Tax Operations - Six-month comparison to prior year

	Six months ended		Variance	
	October 31,		Better/ (worse)	
	2001	2000	\$	%

	----	----	-	-
Canada	\$ 5,657	\$ 5,834	\$ (177)	-3.0%
Australia	11,490	12,385	(895)	-7.2%
United Kingdom	871	1,047	(176)	-16.8%
Overseas franchises	523	532	(9)	-1.7%
	-----	-----	-----	
Total revenues	18,541	19,798	(1,257)	-6.4%
	=====	=====	=====	
Canada	(7,464)	(9,140)	1,676	18.3%
Australia	2,510	3,494	(984)	-28.2%
United Kingdom	(575)	(591)	16	2.7%
Overseas franchises	21	142	(121)	-85.2%
Allocated corporate & shared costs	(1,136)	(1,111)	(25)	-2.3%
	-----	-----	-----	
Pretax loss	\$ (6,644)	\$ (7,206)	\$ 562	7.8%
	=====	=====	=====	

Revenues decreased by 6.4% to \$18.5 million from \$19.8 million last year. The decrease was largely driven by unfavorable changes in currency exchange rates primarily in Australia and also in Canada.

Pretax loss improved 7.8% to a loss of \$6.6 million from \$7.2 million last year.

The improved performance in Canada is attributed to better business management and cost control mainly related to facilities costs.

The Australian results were negatively affected by unfavorable changes in currency exchange rates, a poor beginning of the tax season and additional costs attributed to the opening of thirteen new offices in July.

The United Kingdom pretax loss decreased by 2.7%. This is being driven by the closure of unprofitable offices.

The overseas franchise pretax profit decreased by 85.2%. This is driven by the return to normal historical business levels after the introduction of the child tax credit program last year.

#### MORTGAGE OPERATIONS

Through Option One Mortgage Corporation and H&R Block Mortgage Corporation, this segment offers a wide range of home mortgage products. This segment is primarily engaged in the origination, servicing, and sale of nonconforming and conforming mortgage loans. This segment mainly offers, through a network of mortgage brokers, a flexible product line to borrowers who are creditworthy but do not meet traditional underwriting criteria. Conforming mortgage loan products, as well as the same flexible product line available through brokers, are

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offered through some H&R Block Financial Advisors branch offices and H&R Block Mortgage Corporation retail offices.

Mortgage Operations - Three-month comparison to prior year

Three months ended		Variance	
October 31,		Better/(worse)	
2001	2000	\$	%
----	----	-	-



Interest income	\$ 27,995	\$ 5,941	\$ 22,054	371.2%
Loan servicing income	33,570	26,566	7,004	26.4%
Gain on sale of mortgage loans	118,186	50,792	67,394	132.7%
Other	1,070	1,391	(321)	-23.1%
	-----	-----	-----	
Total revenues	180,821	84,690	96,131	113.5%
	=====	=====	=====	
Compensation & benefits	42,695	28,608	(14,087)	-49.2%
Variable servicing & processing	15,510	8,990	(6,520)	-72.5%
Occupancy & equipment	7,581	5,616	(1,965)	-35.0%
Interest expense	1,394	714	(680)	-95.2%
Bad debt expense	5,450	5,550	100	1.8%
Amortization of acquisition intangibles	--	3,395	3,395	100.0%
Other	14,478	10,744	(3,734)	-34.8%
Allocated corporate & shared costs	522	640	118	18.4%
	-----	-----	-----	
Total expenses	87,630	64,257	(23,373)	-36.4%
	-----	-----	-----	
Pretax earnings	\$ 93,191	\$ 20,433	\$ 72,758	356.1%
	=====	=====	=====	

Revenues increased by 113.5% for the three months ended October 31, 2001 compared to the same period last year. The increase is primarily due to an increase in production volume, higher excess retained interest spread earned, a favorable secondary market environment and a larger servicing portfolio. Revenues related to the sale of mortgage loans increased by \$67.4 million over the prior year period resulting from a significant increase in loan origination volume, as well as better pricing execution on mortgage loan sales. During the three months ended October 31, 2001, the Company originated \$2.6 billion in mortgage loans compared to \$1.5 billion for the same period last year, an increase of 76.3%. The increase in loan production is a result of an increase in the average loan size, an increase in the size of the sales force, an improvement in the closing ratio and to a lesser extent, the declining interest rate environment. For non-prime production, the percentage of loan refinancing to total loan origination has not changed significantly as a result of the decline in interest rates. One of the Company's key cross-sell initiatives related to retail mortgage operations resulted in 61.9% of all retail loans, and 9.6% of all loans originated during the second quarter this year coming from H&R Block tax clients. The total execution price representing gain on sale of mortgage loans for the three months ending October 31, 2001 was 5.08% compared to 3.53% for the same period last year. The better execution pricing is partially attributable to the declining interest rate environment that has the effect of widening spreads on mortgage loan sales. Interest income for the three months ended October 31, 2001 totaled \$28.0 million, an increase of \$22.1 million over the comparable prior year period. This increase is primarily the result of the declining interest rate environment since

new non-prime loan originations are far less sensitive to such declines as compared to the interest rates charged on the related borrowings, which directly reflect changes in market interest rates and therefore improves the excess retained interest spread earned. The excess retained interest spread for the three months ended October 31, 2001 was 5.21% compared to 2.41% for the same period last year. Servicing revenues increased by 26.4% to \$33.6 million for the three months ended October 31, 2001, as compared to the same period last year. The increase reflects a higher loan servicing portfolio balance and an increase in servicing operations efficiencies. The average servicing portfolio for the three-month period ended October 31, 2001 increased to \$20.2 billion from \$14.8 billion for the same period last year.

Pretax earnings increased by \$72.8 million or 356.1%, to \$93.2 million for the three months ended October 31, 2001. The improved performance is primarily due to the increase in revenues as discussed above. In addition, the higher loan volumes helped drive a decline in the net cost of origination due to process

efficiencies and economies of scale, significantly improving the pretax margin. The second quarter also benefited from the adoption of SFAS 141 and 142 by eliminating amortization of goodwill, which totaled \$3.4 million in the prior year's second quarter. Mortgage operations operating profit margin of 3.52% improved 193 basis points from 1.59% in the prior year. The operating profit margin is defined as pretax earnings before goodwill amortization divided by mortgage fundings. Mortgage operations EBITDA increased by \$70.7 million to \$96.9 million in the second quarter of fiscal 2002.

Mortgage Operations - Three-month comparison to preceding quarter

	Fiscal Year		Variance	
	-----		-----	
	2002 Quarter		Better/(worse)	
	-----		-----	
	2nd	1st	\$	%
	---	---	-	-
Interest income	\$ 27,995	\$ 19,194	\$ 8,801	45.9%
Loan servicing income	33,570	32,473	1,097	3.4%
Gain on sale of mortgage loans	118,186	96,234	21,952	22.8%
Other	1,070	424	646	152.4%
	-----	-----	-----	-----
Total revenues	180,821	148,325	32,496	21.9%
	=====	=====	=====	
Compensation & benefits	42,695	41,772	(923)	-2.2%
Variable servicing & processing	15,510	11,520	(3,990)	-34.6%
Occupancy & equipment	7,581	6,037	(1,544)	-25.6%
Interest expense	1,394	1,795	401	22.3%
Bad debt expense	5,450	6,616	1,166	17.6%
Amortization of acquisition intangibles	--	--	--	--
Other	14,478	13,526	(952)	-7.0%
Allocated corporate & shared costs	522	280	(242)	-86.4%
	-----	-----	-----	-----
Total expenses	87,630	81,546	(6,084)	-7.5%
	-----	-----	-----	-----
Pretax earnings	\$ 93,191	\$ 66,779	\$ 26,412	39.6%
	=====	=====	=====	

Revenues increased by 21.9% for the three months ended October 31, 2001 compared to the first quarter of fiscal 2002. The increase is primarily due to a favorable secondary market

environment. Revenues related to the sale of mortgage loans increased by \$22.0 million over the first quarter period resulting from a significant increase in pricing execution on mortgage loan sales. The total execution price representing gain on sale of mortgage loans for the three months ending October 31, 2001 was 5.08% compared to 3.82% for the three months ending July 31, 2001. The better execution pricing is partially attributable to the declining interest rate environment that has the effect of widening spreads on mortgage loan sales.

Pretax earnings increased by \$26.4 million or 39.6%, to \$93.2 million for the three months ended October 31, 2001. The improved performance is primarily due to the increase in revenues as discussed above. Mortgage operations operating profit margin of 3.52% improved 97 basis points from 2.55% in the first quarter of fiscal 2002. Mortgage operations EBITDA increased by \$27.0 million to \$96.9 million in the second quarter of fiscal 2002.

Mortgage Operations - Six-month comparison to prior year

	Six months ended		Variance	
	October 31,		Better/(worse)	
	2001	2000	\$	%
Interest income	\$ 47,189	\$ 14,583	\$ 32,606	223.6%
Loan servicing income	66,043	49,502	16,541	33.4%
Gain on sale of mortgage loans	214,420	99,639	114,781	115.2%
Other	1,494	1,566	(72)	-4.6%
Total revenues	329,146	165,290	163,856	99.1%
Compensation & benefits	84,467	54,921	(29,546)	-53.8%
Variable servicing & processing	27,030	16,898	(10,132)	-60.0%
Occupancy & equipment	13,618	11,025	(2,593)	-23.5%
Interest expense	3,189	4,087	898	22.0%
Bad debt expense	12,066	8,193	(3,873)	-47.3%
Amortization of acquisition intangibles	--	6,789	6,789	100.0%
Other	28,004	20,477	(7,527)	-36.8%
Allocated corporate & shared costs	802	937	135	14.4%
Total expenses	169,176	123,327	(45,849)	-37.2%
Pretax earnings	\$ 159,970	\$ 41,963	\$ 118,007	281.2%

Revenues increased by 99.1% for the six months ended October 31, 2001 compared to the same period last year. The increase is primarily due to an increase in production volume, higher excess retained interest spread earned, a favorable secondary market environment and a larger servicing portfolio. Revenues related to the sale of mortgage loans increased by \$114.8 million over the prior year period resulting from a significant increase in loan origination volume, as well as better pricing execution on mortgage loan sales. During the six months ended October 31, 2001 the Company originated \$5.3 billion in mortgage loans compared to \$2.9 billion for the same period last year, an increase of 82.5%. The increase in loan production is a result of an increase in the average loan size, an increase in the size of the sales force, an improvement in the closing ratio and to a lesser extent, the declining interest rate environment. For non-prime

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production, the percentage of loan refinancing to total loan origination has not changed significantly as a result of the decline in interest rates. One of the Company's key cross-sell initiatives related to retail mortgage operations resulted in 61.5% of all retail loans, and 10.0% of all loans originated during the six months this year coming from H&R Block tax clients. The total execution price representing gain on sale of mortgage loans for the six months ending October 31, 2001 was 4.54% compared to 3.22% for the same period last year. The better execution pricing is partially attributable to the declining interest rate environment that has the effect of widening spreads on mortgage loan sales. Interest income for the six months ended October 31, 2001 totaled \$47.2 million, an increase of \$32.6 million over the comparable prior year period. This increase is primarily the result of the declining interest rate environment since new non-prime loan originations are far less sensitive to such declines as compared to the interest rates charged on the related borrowings, which directly reflect changes in market interest rates and therefore improves the excess retained interest spread earned. The excess retained interest spread for the six months ended October 31, 2001 was 5.08% compared to 2.37% for the same period last year. Servicing revenues increased by 33.4% to \$66.0 million for the six months ended October 31, 2001, as compared to the same period last year. The increase reflects a higher loan servicing portfolio balance and an increase in servicing operations efficiencies. The average servicing portfolio for the six-month period increased to \$19.5 billion from \$13.0 billion for the same period last year.

Pretax earnings increased by \$118.0 million or 281.2%, to \$160.0 million for the

six months ended October 31, 2001. The improved performance is primarily due to the increase in revenues as discussed above. In addition, the higher loan volumes helped drive a decline in the net cost of origination due to process efficiencies and economies of scale, significantly improving the pretax margin. The six months ended October 31, 2001 also benefited from the adoption of SFAS 141 and 142 by eliminating amortization of goodwill, which totaled \$6.8 million in the prior year comparable six-month period. Mortgage operations operating profit margin of 3.04% improved 135 basis points from 1.69% in the prior year. Mortgage operations EBITDA increased by \$113.6 million to \$166.9 million in the first six months of fiscal 2002 compared to the same period in fiscal 2001.

#### INVESTMENT SERVICES

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

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#### Investment Services - Three-month comparison to prior year

	Three months ended		Variance	
	October 31,		Better/(worse)	
	2001	2000	\$	%
	----	----	-	-
Commission & fee income	\$ 41,375	\$ 65,348	\$ (23,973)	-36.7%
Margin interest income	17,222	59,507	(42,285)	-71.1%
Other	6,230	6,718	(488)	-7.3%
	-----	-----	-----	
Total revenues	64,827	131,573	(66,746)	-50.7%
	=====	=====	=====	
Compensation & benefits	33,155	43,365	10,210	23.5%
Interest expense	4,267	33,381	29,114	87.2%
Occupancy & equipment	7,412	6,780	(632)	-9.3%
Depreciation & amortization	4,803	4,536	(267)	-5.9%
Commission, floor brokerage & fees	1,802	3,043	1,241	40.8%
Amortization of acquisition intangibles	7,381	11,456	4,075	35.6%
Other	13,414	16,905	3,491	20.7%
Allocated corporate & shared costs	1,728	328	(1,400)	-426.8%
	-----	-----	-----	
Total expenses	73,962	119,794	45,832	38.3%
	-----	-----	-----	
Pretax earnings (loss)	\$ (9,135)	\$ 11,779	\$ (20,914)	--
	=====	=====	=====	

Investment services revenue for the second quarter of fiscal year 2002 compared to the second quarter of 2001 decreased 50.7% to \$64.8 million from \$131.6 million. The overall decrease in revenues can be attributed primarily to bearish market conditions. The economy began to slow down in the summer of 2000 and continued to decline in the winter months and into calendar year 2001. The September 11th tragedies exacerbated the decline in investor confidence. As a result of this tragedy, the exchanges were closed for four days.

Pretax results for Investment services for the second quarter of fiscal year 2002, compared to 2001 decreased \$20.9 million to a loss of \$9.1 million from

pretax earnings of \$11.8 million. The decrease in pretax results is primarily attributed to the decline in customer trading and customer margin activity. Total expenses decreased by 38.3% to \$74.0 million from \$119.8 million. As a result of the adoption of SFAS 141 and 142, Investment services amortization of acquired intangible assets declined by \$4.1 million.

Trading Volume. Similar to the rest of the industry, Investment services has been experiencing a decline in trading volume. Total customer trades for the second quarter of fiscal year 2002 were 377,094, whereas in the previous year's second quarter the total customer trades were 626,436, a decline of 39.8%. As a result, commission and fee income decreased 36.7% to \$41.4 million from \$65.3 million. The average commission per trade declined 10.4% from \$70.52 to \$63.17, reflecting lower dollar volume trades as compared to the previous year's similar time period.

Margin Lending. Due to declining securities values and investor uncertainty, which has increased due to the September 11th tragedies, customer margin balances have significantly declined. Balances fell from an average of \$2.7 billion in the second quarter of 2001 to an

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average of \$1.1 billion for the same time period for 2002. The decrease in margin interest revenue was primarily attributed to the decline in margin balances and to a lesser extent, lower interest rates. At the end of the second quarter of fiscal 2002, the Federal Funds Rate declined 400 basis points to 2.5% from 6.5% at the end of the second quarter of fiscal 2001. Net interest margin, defined as interest earned on the average margin loan balance less the cost of funding those loans, declined from 1.77% for the three months ending October 2000 to 1.08% for the three months ending October 2001, as interest rates have fallen and compressed spreads.

Principal Trading. Decimalization replaced fractional trading for listed equities on January 29, 2001 and for Nasdaq equities on April 9, 2001. The impact of decimalization has reduced the dealer spread between the bid and ask prices, reducing revenue opportunities. Overall principal trading revenue, including equities, fixed income trading, underwriting, and unit investment trusts, decreased 22.2% to \$11.9 million. Underwriting revenues increased by \$3.5 million or 224.2% from the previous second quarter, primarily due to increased demand for Trust Preferred Debt Securities. More clients have shown a greater interest in fixed rate capital securities due to the current equity market conditions. More than offsetting this increase was a \$4.8 million decline in equity unit investment trusts (UIT) and a decline of \$4.4 million in equity trading. Client demand for equity UITs fell as many equity UITs have taken sharp down turns from initial offering prices in late fiscal 2000 and early fiscal 2001.

Interest Expenditures. The largest decrease in expenses for the second quarter of fiscal year 2002, as compared to the second quarter of 2001, was interest expense. Interest expense decreased 87.2% to \$4.3 million from \$33.4 million. Interest expense is mainly comprised of interest paid on customer credit balances and interest paid for securities lending, which is used to finance customer margin balances. Interest paid on customer credit balances decreased 62.1% to \$3.2 million from \$8.5 million. The decrease is due to smaller customer balances and lower interest rates. Balances fell from an average of \$915.7 million in the second quarter of 2001 to an average of \$755.9 million for the same time period for 2002, a decline of 17.5%. Interest paid on securities lending decreased 95.8% to \$1.0 million from \$24.9 million. In addition to a decline in interest rates, the lower interest expense is attributable to the decline in customer margin balances. Since stock loans are used to finance the margin-lending portfolio, shrinkage has reduced the need for this financing.

Fixed Expenses. Investment services is in the midst of re-engineering and consolidation efforts (with corporate departments). These efforts are focused on building a stronger, more effective organization that will be better prepared to respond to marketplace changes and provide clients with the value they are demanding. As a result of these efforts, a reduction in workforce occurred in October 2001 and the Company incurred severance charges of approximately \$1.7 million.

Products. Continuing efforts to become an advisory-based relationship provider, a number of key initiatives occurred despite the difficult financial and market environment. Annuities were added to the product line beginning in January 2001. For the second quarter of 2002, annuity revenue was \$563 thousand. The Company currently conducts annuity business in twelve states, but is licensed in thirty-one states, and will continue to add additional states to distribute the product. In the fall of 2000, the Company began offering online accounts to its customers. The

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number of online trades represented 6.6% of total trades for the quarter ended October 31, 2001. Accounts with cash management features like the VISA Gold ATM/Check card, which offers customers the choice of a 1% cash rebate on every VISA Gold purchase or airline miles that can be redeemed on any airline, were offered for the first time in July. In the third quarter of fiscal 2002, the Company will be launching fee-based services. The Investment services segment has yet to experience significant revenues from the majority of these initiatives.

Investment services EBITDA declined to \$3.6 million in the second quarter of fiscal 2002 from \$28.4 million in the same period last year.

Investment Services - Three-month comparison to preceding quarter

	Fiscal Year		Variance	
	2002 Quarter		Better/(worse)	
	2nd	1st	\$	%
Commission & fee income	\$ 41,375	\$ 41,776	\$ (401)	-1.0%
Margin interest income	17,222	21,955	(4,733)	-21.6%
Other	6,230	5,194	1,036	20.0%
Total revenues	64,827	68,925	(4,098)	-6.0%
Compensation & benefits	33,155	31,500	(1,655)	-5.3%
Interest expense	4,267	6,645	2,378	35.8%
Occupancy & equipment	7,412	7,689	277	3.6%
Depreciation & amortization	4,803	4,982	179	3.6%
Commission, floor brokerage & fees	1,802	1,620	(182)	-11.2%
Amortization of acquisition intangibles	7,381	7,381	--	--
Other	13,414	13,137	(277)	-2.1%
Allocated corporate & shared costs	1,728	2,069	341	16.5%
Total expenses	73,962	75,023	1,061	1.4%
Pretax loss	\$ (9,135)	\$ (6,098)	\$ (3,037)	-49.8%

Investment services revenue for the second quarter of fiscal year 2002 compared to the first quarter of 2002 decreased 6.0% to \$64.8 million from \$68.9 million. The overall decrease in revenues can be attributed primarily to bearish market conditions. The economy began to slow down in the summer of 2000 and continued to decline in the winter months and into calendar year 2001. The September 11th tragedies exacerbated the decline in investor confidence. As a result of this tragedy, the exchanges were closed for four days.

The pretax loss for Investment services for the second quarter of fiscal year 2002, compared to first quarter of 2002 increased 49.8% to a loss of \$9.1 million from a loss of \$6.1 million. The increase is primarily attributed to the decline in customer trading and customer margin activity. Total expenses decreased by 1.4% to \$74.0 million from \$75.0 million.

Trading Volume. Similar to the rest of the industry, Investment services has been experiencing a decline in trading volume. Total customer trades for the second quarter of fiscal year 2002 were 377,094, whereas in the first quarter the total customer trades were 389,343, a decline of 3.1%. As a result, commission and fee income decreased 1.0% to \$41.4 million from \$41.8 million. The average commission per trade increased 1.4% from \$62.29 to \$63.17. Commission rates charged to customers increased in September 2000, February 2001, and also in October 2001.

Margin Lending. Due to declining securities values and investor uncertainty, which has increased due to the September 11th tragedies, customer margin balances have declined. Balances fell from an average of \$1.3 billion in the first quarter of 2002 to an average of \$1.1 billion in the second quarter. The decrease in margin interest revenue was primarily attributed to the decline in margin balances and to a lesser extent lower interest rates. At the end of the second quarter, the Federal Funds Rate was 2.5%, a decrease of 125 basis points from 3.75% at the end of the first quarter. Net interest margin, defined as interest earned on the average margin loan balance less the cost of funding those loans, declined from 1.57% to 1.08% from the end of the first quarter of 2002 to the end of the second quarter of 2002, as interest rates have fallen and compressed spreads.

Principal Trading. Decimalization replaced fractional trading for listed equities on January 29, 2001 and for Nasdaq equities on April 9, 2001. The impact of decimalization has reduced the dealer spread between the bid and ask prices, reducing revenue opportunities. Overall principal trading revenue, including equities, fixed income trading, underwriting, and unit investment trusts, decreased 10.4% to \$11.9 million. Underwriting revenues increased by \$1.1 million or 26.2% from the first quarter of 2002, primarily due to increased demand for Trust Preferred Debt Securities. More clients have shown a greater interest in fixed rate capital securities due to the current equity market conditions. More than offsetting this increase was a \$2.4 million decline in fixed income trading.

Interest Expenditures. The largest decrease in expenses for the second quarter of fiscal year 2002, as compared to the first quarter of 2002, was interest expense. Interest expense decreased 35.8% to \$4.3 million from \$6.6 million. Interest expense is mainly comprised of interest paid on customer credit balances and interest paid for securities lending, which is used to finance customer margin balances. Interest paid on customer credit balances decreased 27.4% to \$3.2 million from \$4.4 million. The decrease is due to smaller customer balances and lower interest rates. Balances fell from an average of \$789.5 million in the first quarter of 2002 to an average of \$755.9 million in the second quarter, a decline of 4.3%. Interest paid on securities lending decreased 53.4% to \$1.0 million from \$2.3 million. Since stock loans are used to finance the margin-lending portfolio, shrinkage has reduced the need for this financing.

Fixed Expenses. Investment services is in the midst of re-engineering and consolidation efforts (with corporate departments). These efforts are focused on building a stronger, more effective organization that will be better prepared to respond to marketplace changes and provide clients with the value they are demanding. As a result of these efforts, a reduction in workforce occurred in October 2001 and the Company incurred severance charges of approximately \$1.7 million.

Investment services EBITDA declined to \$3.6 million in the second quarter of fiscal 2002 from \$6.8 million in the first quarter.

Investment Services - Six-month comparison to prior year

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	Six months ended October 31,		Variance Better/(worse)	
	2001	2000	\$	%
Commission & fee income	\$ 83,151	\$ 130,136	\$ (46,985)	-36.1%
Margin interest income	39,177	118,544	(79,367)	-67.0%
Other	11,424	13,560	(2,136)	-15.8%
	-----	-----	-----	-----
Total revenues	133,752	262,240	(128,488)	-49.0%
	=====	=====	=====	
Compensation & benefits	64,655	84,029	19,374	23.1%
Interest expense	10,912	66,375	55,463	83.6%
Occupancy & equipment	15,101	13,994	(1,107)	-7.9%
Depreciation & amortization	9,785	8,318	(1,467)	-17.6%
Commission, floor brokerage & fees	3,422	6,580	3,158	48.0%
Amortization of acquisition intangibles	14,762	23,027	8,265	35.9%
Other	26,551	29,791	3,240	10.9%
Allocated corporate & shared costs	3,797	6,664	2,867	43.0%
	-----	-----	-----	-----
Total expenses	148,985	238,778	89,793	37.6%
	-----	-----	-----	-----
Pretax earnings (loss)	\$ (15,233)	\$ 23,462	\$ (38,695)	--
	=====	=====	=====	

Investment services revenue for the first six months of fiscal year 2002 compared to the first six months of 2001 decreased 49.0% to \$133.8 million from \$262.2 million. The overall decrease in revenues can be attributed primarily to bearish market conditions. The economy began to slow down in the summer of 2000 and continued to decline in the winter months and into calendar year 2001. The September 11th tragedies exacerbated the decline in investor confidence. As a result of this tragedy, the exchanges were closed for four days.

Pretax results for Investment services for the first six months of fiscal year 2002 compared to 2001 decreased \$38.7 million to a loss of \$15.2 million from pretax earnings of \$23.5 million. The decrease in pretax results is primarily attributed to the decline in customer trading and customer margin activity. Total expenses decreased by 37.6% to \$149.0 million from \$238.8 million. As a result of the adoption of SFAS 141 and 142, Investment services amortization of acquired intangible assets declined by \$8.3 million.

Trading Volume. Similar to the rest of the industry, Investment services has been experiencing a decline in trading volume. Total customer trades for the first six months of 2002 were 766,437, whereas in the previous year's first six months the total customer trades were 1,272,913, a decline of 39.8%. As a result, commission and fee income decreased 36.1% to \$83.2 million from \$130.1 million. The average commission per trade declined 6.2% from \$66.86 to \$62.73, reflecting lower dollar volume trades as compared to the previous year's similar time period.

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Margin Lending. Due to declining securities values and investor uncertainty, which has increased due to the September 11th tragedies, customer margin balances have significantly declined. Balances fell from an average of \$2.7 billion in the first six months of 2001 to an average of \$1.2 billion for the same time period for 2002. The decrease in margin interest revenue was primarily attributed to the decline in margin balances and to a lesser extent, lower interest rates. At the beginning of the first quarter of fiscal 2001, the Federal Funds Rate was 6.0% and by the end of the second quarter of fiscal 2002, the Federal Funds Rate was 2.5%, which is a decrease of 350 basis points. Net interest margin, defined as interest earned on the average margin loan balance less the cost of funding those loans, declined from 1.69% for the six months ended October 2000 to 1.34% for the six months ended October 2001, as interest rates have fallen and compressed spreads.

Principal Trading. Decimalization replaced fractional trading for listed equities on January 29, 2001 and for Nasdaq equities on April 9, 2001. The impact of decimalization has reduced the dealer spread between the bid and ask prices, reducing revenue opportunities. Overall principal trading revenue,



including equities, fixed income trading, underwriting, and unit investment trusts, decreased 25.9% to \$25.1 million. Underwriting revenues increased by \$7.3 million or 395.8% from the previous first six months, primarily due to increased demand for Trust Preferred Debt Securities. More clients have shown a greater interest in fixed rate capital securities due to the current equity market conditions. More than offsetting this increase was an \$11.3 million decline in equity UITs and a decline of \$8.0 million in equity trading. Client demand for equity UITs fell as many equity UITs have taken sharp down turns from initial offering prices in late fiscal 2000 and early fiscal 2001.

Interest Expenditures. The largest decrease in expenses for the first six months of fiscal year 2002, as compared to the first six months of 2001, was interest expense. Interest expense decreased 83.6% to \$10.9 million from \$66.4 million. Interest expense is mostly comprised of interest paid on customer credit balances and interest paid for securities lending, which is used to finance customer margin balances. Interest paid on customer credit balances decreased 55.0% to \$7.7 million from \$17.0 million. The decrease is due to smaller customer balances and lower interest rates. Balances fell from an average of \$929.6 million in the first six months of fiscal 2001 to an average of \$772.7 million for the same time period in fiscal 2002, a decline of 16.9%. Interest paid on securities lending decreased 93.3% to \$3.3 million from \$49.4 million. In addition to a decline in interest rates, the lower expense is attributable to the decline in customer margin balances. Since stock loans are used to finance the margin-lending portfolio, shrinkage has reduced the need for this financing.

Fixed Expenses. Investment services is in the midst of re-engineering and consolidation efforts (with corporate departments). These efforts are focused on building a stronger, more effective organization that will be better prepared to respond to marketplace changes and provide clients with the value they are demanding. As a result of these efforts, a reduction in workforce occurred in October 2001 and the Company incurred severance charges of approximately \$1.7 million.

Products. Continuing efforts to become an advisory-based relationship provider, a number of key initiatives occurred despite the difficult financial and market environment. Annuities were

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added to the product line beginning in January 2001. For the first six months of fiscal 2002, annuity revenue was \$1.1 million. The Company currently conducts annuity business in twelve states, but is licensed in thirty-one states, and will continue to add additional states to distribute the product. In the fall of 2000, the Company began offering online accounts to its customers. The number of online trades represented 6.6% of total trades during the six months ended October 31, 2001. Accounts with cash management features like the VISA Gold ATM/Check card, which offers customers the choice of a 1% cash rebate on every VISA Gold purchase or airline miles that can be redeemed on any airline, were offered for the first time in July. In the third quarter of fiscal 2002, the Company will be launching fee-based services. The Investment services segment has yet to experience significant revenues from the majority of these initiatives.

During the tax season, the Express IRA product was launched in six tax services regions, introducing new technology, sales activities, service functions and training across the tax services and HRBFA organizations. This product will be rolled out nationally for the 2002 tax season. Another key cross-organizational initiative was the creation and testing of the TPFA (Tax Preparer Financial Advisor) program. In its pilot year, 430 TPFAs, through the most recent tax season, cross-sold 3,000 investment-related accounts. In addition, tax client referrals to Investment services resulted in approximately 15,000 additional new accounts. Investment services plans to add another 600-800 TPFAs in fiscal 2002, bringing the total to approximately 1,000-1,200.

Investment services EBITDA declined to \$10.4 million for the first six months of fiscal 2002 from \$56.0 million last year.

#### BUSINESS SERVICES

This segment is primarily engaged in providing accounting, tax and consulting services to business clients and tax, estate planning, financial planning,

wealth management and insurance services to individuals. Revenues from this segment are seasonal.

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Business Services - Three-month comparison to prior year

	Three months ended October 31,		Variance Better/(worse)	
	2001	2000	\$	%
	-----	-----	-	-
Accounting, consulting & tax	\$ 79,059	\$ 69,265	\$ 9,794	14.1%
Product sales	4,950	5,278	(328)	-6.2%
Management fee income	3,150	4,639	(1,489)	-32.1%
Other	4,620	(915)	5,535	--
	-----	-----	-----	-----
Total revenues	91,779	78,267	13,512	17.3%
	=====	=====	=====	
Compensation & benefits	62,496	54,815	(7,681)	-14.0%
Occupancy & equipment	4,491	5,556	1,065	19.2%
Depreciation & amortization	1,521	1,861	340	18.3%
Marketing & advertising	1,307	1,247	(60)	-4.8%
Bad debt expense	1,617	2,427	810	33.4%
Amortization of acquisition intangibles	3,255	7,847	4,592	58.5%
Other	14,103	5,068	(9,035)	-178.3%
Allocated corporate & shared costs	435	476	41	8.6%
	-----	-----	-----	-----
Total expenses	89,225	79,297	(9,928)	-12.5%
	-----	-----	-----	
Pretax earnings (loss)	\$ 2,554	\$ (1,030)	\$ 3,584	--
	=====	=====	=====	

Business services revenues of \$91.8 million increased 17.3% from \$78.3 million in the quarter ended October 31, 2000. This increase was due to the addition of new firms, wealth management services and revenue from tax consulting.

During the quarter, the segment acquired two accounting firms, which expanded its geographic coverage to the Seattle and San Francisco metropolitan areas. Additionally, the segment completed add-on acquisitions relating to existing offices in the New York City area and Dallas. The effect of these acquisitions completed during the quarter plus the current quarter revenues from acquisitions completed in fall 2000, net of the sale of assets of KSM Business Services, Inc. effected in December 2000, was to increase revenue by \$7.2 million or 9.2%.

The Wealth Management services are part of a focus to provide a fully integrated approach to clients to further their business and personal financial objectives. Revenue from the initiative consists both of fees relating to assets managed for clients and also revenue from insurance carriers relating to alliances to provide life insurance solutions to clients.

Pretax results improved from a \$1.0 million pretax loss in the quarter ended October 31, 2000 to \$2.6 million pretax earnings for the quarter ended October 31, 2001. The pretax results comparison was positively affected by \$5.0 million as a result of the adoption of SFAS 141 and 142, which eliminates the amortization of goodwill and intangible assets. Pretax earnings were reduced by \$.9 million due to the off-season losses of firms acquired.

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Business services EBITDA declined to \$7.3 million from \$8.7 million in the second quarter of last year.

During the third quarter of fiscal year 2002, the segment plans to acquire two new consulting firms. One of the firms is expected to expand valuation, merger and acquisition consulting capabilities and the other is expected to expand

payroll and benefits processing capabilities. Both of these are fundamental to providing value-added services to capitalize on existing client relationships.

Due to the nature of this segment's business, revenues are seasonal, while expenses are relatively fixed throughout the year. Results for the second quarter are not indicative of the expected results for the entire fiscal year.

Business Services - Three-month comparison to preceding quarter

	Fiscal Year 2002 Quarter		Variance Better/(worse)	
	2nd	1st	\$	%
	---	---	-	-
Accounting, consulting & tax	\$ 79,059	\$ 64,901	\$ 14,158	21.8%
Product sales	4,950	5,365	(415)	-7.7%
Management fee income	3,150	2,250	900	40.0%
Other	4,620	7,466	(2,846)	-38.1%
	-----	-----	-----	-----
Total revenues	91,779	79,982	11,797	14.8%
	=====	=====	=====	
Compensation & benefits	62,496	58,163	(4,333)	-7.5%
Occupancy & equipment	4,491	5,419	928	17.1%
Depreciation & amortization	1,521	2,102	581	27.6%
Marketing & advertising	1,307	1,363	56	4.1%
Bad debt expense	1,617	3,011	1,394	46.3%
Amortization of acquisition intangibles	3,255	3,196	(59)	-1.9%
Other	14,103	8,597	(5,506)	-64.1%
Allocated corporate & shared costs	435	302	(133)	-44.0%
	-----	-----	-----	-----
Total expenses	89,225	82,153	(7,072)	-8.6%
	-----	-----	-----	-----
Pretax earnings (loss)	\$ 2,554	\$ (2,171)	\$ 4,725	--
	=====	=====	=====	

Business services revenues of \$91.8 million increased 14.8% from \$80.0 million in the quarter ended July 31, 2001. This increase was due to a significant increase in tax consulting revenue over the prior quarter of approximately \$8.0 million.

Revenue from core services and general consulting services remained relatively flat for the quarter compared to the previous quarter. The demand for services has remained stable despite the slowing economy.

Pretax results improved from a \$2.2 million pretax loss in the quarter ended July 31, 2001 to pretax earnings of \$2.6 million for the current quarter. This increase is due to the seasonal

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nature of the business, as revenues are greater in the second quarter while costs remain relatively fixed.

Business services EBITDA improved to \$7.3 million from \$3.1 million in the first quarter of fiscal 2002.

Business Services - Six-month comparison to prior year

Six months ended October 31,	Variance Better/(worse)
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	2001	2000	\$	%
	----	----	-	-
Accounting, consulting & tax	\$ 143,960	\$ 130,647	\$ 13,313	10.2%
Product sales	10,315	9,967	348	3.5%
Management fee income	5,400	5,167	233	4.5%
Other	12,086	8,583	3,503	40.8%
	-----	-----	-----	
Total revenues	171,761	154,364	17,397	11.3%
	=====	=====	=====	
Compensation & benefits	120,659	95,241	(25,418)	-26.7%
Occupancy & equipment	9,910	14,890	4,980	33.5%
Depreciation & amortization	3,623	4,099	476	11.6%
Marketing & advertising	2,670	2,766	96	3.5%
Bad debt expense	4,628	4,265	(363)	-8.5%
Amortization of acquisition intangibles	6,451	14,822	8,371	56.5%
Other	22,700	21,847	(853)	-3.9%
Allocated corporate & shared costs	737	698	(39)	-5.6%
	-----	-----	-----	
Total expenses	171,378	158,628	(12,750)	-8.0%
	-----	-----	-----	
Pretax earnings (loss)	\$ 383	\$ (4,264)	\$ 4,647	--
	=====	=====	=====	

Business services revenues of \$171.8 million increased 11.3% from \$154.4 million in the prior year. This increase was due to the addition of new firms and revenue from Wealth Management services.

During the six-month period, the segment acquired two accounting firms, which expanded its geographic coverage to the Seattle and San Francisco metropolitan areas. Additionally, the segment completed add-on acquisitions relating to existing offices in the New York City area and Dallas. The effect of these acquisitions completed in the six months ended October 31, 2001 plus the full six months of revenues for acquisitions completed in the fall of 2000, net of the sale of assets of KSM Business Services, Inc. effected in December 2000, was to increase revenue for the six months by \$9.0 million or 5.8%.

Growth from existing product lines was \$8.4 million, or 5.5% of revenue, and was primarily due to Wealth Management services. Wealth Management services are part of a focus to provide a fully integrated approach to clients to further their business and personal financial objectives. Revenue from the initiative consists both of fees relating to assets managed for

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clients and also revenue from insurance carriers relating to alliances to provide life insurance solutions to clients.

Revenue from core tax services and general consulting services remained relatively flat for the six months compared to the prior year. The demand for services has remained stable despite the slowing economy and the September 11th tragedies.

Pretax results improved from a \$4.3 million loss in the prior year to pretax earnings of \$383 thousand for the current year. The pretax results comparison was positively impacted by \$9.1 million as a result of the adoption of SFAS 141 and 142 which eliminates amortization of goodwill and intangible assets. Increases in fixed costs of \$3.6 million, related to newly acquired firms, had the effect of decreasing pretax earnings.

Business services EBITDA declined to \$10.5 million from \$14.7 million in the prior year.

During the third quarter of fiscal year 2002, the segment plans to acquire two new consulting firms. One of the firms is expected to expand valuation, merger and acquisition consulting capabilities and the other is expected to expand payroll and benefits processing capabilities. Both of these are fundamental to providing value-added services to capitalize on existing client relationships.

Due to the nature of this segment's business, revenues are seasonal, while

expenses are relatively fixed throughout the year. Results for the six months are not indicative of the expected results for the entire fiscal year.

#### UNALLOCATED CORPORATE

As previously discussed, the Company adopted a new methodology for allocation of corporate services and support costs to business units. The change was made to more accurately reflect each business segment's performance. Total corporate services and support costs are included in the Unallocated corporate segment. These costs are then allocated to the Company's businesses. Prior year results have been restated based on this allocation methodology.

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#### Unallocated Corporate & Interest Expense on Acquisition Debt - Three-month comparison to prior year

	Three months ended October 31,		Variance Better/(worse)	
	2001	2000	\$	%
	----	----	-	-
Total revenues	\$ (422)	\$ 1,642	\$ (2,064)	--
	-----	-----	-----	
Compensation & benefits	21,468	13,912	(7,556)	-54.3%
Occupancy & equipment	5,284	2,857	(2,427)	-85.0%
Depreciation & amortization	5,530	4,957	(573)	-11.6%
Marketing & advertising	4,658	(274)	(4,932)	--
Other	18,210	20,855	2,645	12.7%
Allocated corporate & shared costs	(45,754)	(33,306)	12,448	37.4%
	-----	-----	-----	
Total expenses	9,396	9,001	(395)	-4.4%
	-----	-----	-----	
Pretax loss	\$ (9,818)	\$ (7,359)	\$ (2,459)	-33.4%
	=====	=====	=====	
Interest expense on acquisition debt	\$ 19,360	\$ 24,484	\$ 5,124	20.9%
	=====	=====	=====	

The decrease in interest expense on acquisition debt is attributable to lower financing costs and payment of a portion of the acquisition debt in the second quarter of fiscal 2002.

#### Unallocated Corporate & Interest Expense on Acquisition Debt - Three-month comparison to preceding quarter

	Fiscal Year 2002 Quarter		Variance Better/(worse)	
	2nd	1st	\$	%
	---	---	-	-
Total revenues	\$ (422)	\$ 2,082	\$ (2,504)	--
	-----	-----	-----	
Compensation & benefits	21,468	17,166	(4,302)	-25.1%
Occupancy & equipment	5,284	4,383	(901)	-20.6%
Depreciation & amortization	5,530	5,812	282	4.9%
Marketing & advertising	4,658	1,449	(3,209)	-221.5%
Other	18,210	14,644	(3,566)	-24.4%
Allocated corporate & shared costs	(45,754)	(35,933)	9,821	27.3%
	-----	-----	-----	
Total expenses	9,396	7,521	(1,875)	-24.9%
	-----	-----	-----	

Pretax loss	\$ (9,818)	\$ (5,439)	\$ (4,379)	-80.5%
	=====	=====	=====	
Interest expense on acquisition debt	\$ 19,360	\$ 21,398	\$ 2,038	9.5%
	=====	=====	=====	

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The decrease in interest expense on acquisition debt is attributable to lower financing costs and payment of a portion of the acquisition debt in the second quarter of fiscal 2002.

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Unallocated Corporate &  
Interest Expense on Acquisition Debt - Six-month comparison to prior year

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	Six months ended October 31,		Variance Better/(worse)	
	2001	2000	\$	%
	----	----	-	-
Total revenues	\$ 1,660	\$ 2,139	\$ (479)	-22.4%
	-----	-----	-----	
Compensation & benefits	38,634	27,405	(11,229)	-41.0%
Occupancy & equipment	9,667	6,468	(3,199)	-49.5%
Depreciation & amortization	11,342	9,542	(1,800)	-18.9%
Marketing & advertising	6,107	4,429	(1,678)	-37.9%
Other	32,854	32,709	(145)	-0.4%
Allocated corporate & shared costs	(81,687)	(66,514)	15,173	22.8%
	-----	-----	-----	
Total expenses	16,917	14,039	(2,878)	-20.5%
	-----	-----	-----	
Pretax loss	\$ (15,257)	\$ (11,900)	\$ (3,357)	-28.2%
	=====	=====	=====	
Interest expense on acquisition debt	\$ 40,758	\$ 51,772	\$ 11,014	21.3%
	=====	=====	=====	

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The decrease in interest expense on acquisition debt is attributable to lower financing costs and payment of a portion of the acquisition debt in fiscal 2002.

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FINANCIAL CONDITION

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These comments should be read in conjunction with the Consolidated Balance Sheets and Consolidated Statements of Cash Flows found on pages 1 and 3, respectively.

LIQUIDITY

Working capital decreased to a negative \$43 thousand at October 31, 2001 from \$282.8 million at April 30, 2001. The working capital ratio at October 31, 2001 is 0.98 to 1, compared to 1.14 to 1 at April 30, 2001. The decrease in working capital and the working capital ratio is attributable to the increase in short-term borrowings and the seasonal nature of the business. The increase in short-term borrowings is largely related to approximately \$258.0 million in excess cash held to ensure on-hand liquidity in the wake of the September 11th tragedies. Historically, a large portion of tax return preparation occurs in the fourth quarter and has the effect of increasing certain assets and liabilities during the fourth quarter, including cash and cash equivalents, receivables, accrued salaries, wages and payroll taxes and accrued taxes on earnings.

The Company incurs short-term borrowings throughout the year primarily to fund receivables associated with its Business services, mortgage loans held for sale

and participation in RALs, and to fund seasonal working capital needs. These short-term borrowings in the U.S. are supported by a \$1.86 billion back-up credit facility through October 2001. On October 26, 2001, the credit facility was amended, restated and extended at \$1.93 billion through October 2002.

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In April 2000, the Company first entered into third party off-balance sheet arrangements and whole-loan sale arrangements for Option One Mortgage Corporation (Option One). These arrangements, modified in April 2001, allow the Company to originate mortgage loans and then sell the loans to a third-party trust without having to use short-term borrowings to fund the loans. The arrangements, which are not guaranteed by the Company, freed up excess cash and short-term borrowing capacity (\$804.9 million at October 31, 2001), improved liquidity and flexibility, and reduced balance sheet risk, while providing stability and access to liquidity in the secondary market for mortgage loans. The Company has commitments to fund mortgage loans of \$1.5 billion at October 31, 2001, as long as there is no violation of any conditions established in the contracts. External market forces impact the probability of commitments being exercised, and therefore, total commitments outstanding do not necessarily represent future cash requirements. If the commitments are exercised, they will be funded using the Company's off-balance sheet arrangements.

At October 31, 2001, short-term borrowings increased to \$881.7 million from a zero balance at April 30, 2001. The Company's capital expenditures, dividend payments, share repurchase program, Business services acquisition and contingent payments, and normal operating activities during the first six months were funded through both internally-generated funds and short-term borrowings. In addition, the Company held excess cash balances of approximately \$258.0 million to ensure on-hand liquidity in the wake of the September 11th tragedies. The Company's debt to total equity ratio at October 31, 2001 was 66.1%, compared to 44.0% at April 30, 2001.

During calendar 2002, the Company plans to execute a net interest margin (NIM) transaction to securitize certain existing residual interests from previous NIM transactions in an effort to expedite receiving cash for the residual interests and to reduce the total value of residual interests on the balance sheet.

For the six months ended October 31, 2001 and 2000, interest expense was \$59.6 million and \$127.2 million, respectively. The decrease in interest expense is due to lower customer credit balances, stock loan balances and acquisition debt, as well as lower financing costs.

In March 2000, the Company's Board of Directors approved an authorization to repurchase up to 12 million shares of its common stock. Repurchases under the March 2000 authorization were completed in September 2001. On September 12, 2001, the Company's Board of Directors authorized the repurchase of an additional 15 million shares of common stock. In the first six months of fiscal 2002, the Company repurchased 9.7 million shares (split-adjusted) pursuant to these authorizations at an aggregate price of \$351.8 million or an average price of \$36.32 per share. There are approximately 11.1 million shares remaining under the September 2001 authorization. The Company plans to continue to purchase its shares on the open market in accordance with this authorization, subject to various factors including the price of the stock, the ability to maintain progress toward a financial and capital structure that will support a mid single A rating (Moody's - A2; Standard & Poors - A; and Fitch - A), the availability of excess cash, the ability to maintain liquidity and financial flexibility, securities laws restrictions and other investment opportunities available.

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#### 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 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, earnings, earnings per share, client and pricing growth goals and expectations for fiscal year 2002; changes in economic, political or regulatory environments; changes in competition and the effects of such changes; the inability to implement the Company's strategies; changes in management and management strategies; the Company's inability to successfully design, create, modify and operate its computer systems and networks; the uncertainty that actual future excess cash flows from residual interests in securitizations of REMIC certificates and mortgage servicing rights will differ from estimated future excess cash flows from such items; the ability of the Company to complete a NIM transaction on existing residual interests; the inability of the Company's Business services segment to acquire additional firms; litigation involving the Company; the uncertainty of the impact of share repurchases on earnings per share; and risks described from time to time in reports and registration statements filed by the Company and its subsidiaries with the Securities and Exchange Commission. Readers should take these factors into account in evaluating any such forward-looking statements. The Company undertakes no obligation to update publicly or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

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QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK  
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There have been no material changes in market risk from those reported at April 30, 2001.

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PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

CompuServe Corporation (CompuServe), certain current and former officers and directors of CompuServe and the Company were named as defendants in six lawsuits in state and Federal courts in Columbus, Ohio. All suits alleged similar violations of the Securities Act of 1933 based on assertions of omissions and misstatements of fact in connection with CompuServe's public filings related to its initial public offering in April 1996. One state lawsuit brought by the Florida State Board of Administration also alleged certain oral omissions and misstatements in connection with such offering. Relief sought in the lawsuits was unspecified, but included pleas for rescission and damages.

In the class action pending in state court, the court issued, in November 2000, its order approving a settlement pursuant to which the defendants agreed to pay a gross settlement amount of \$9.5 million. Payment of plaintiffs' attorneys' fees and expenses were to be paid out of the gross settlement fund. The gross settlement fund was paid in its entirety by the Company's insurance carrier. The agreement to settle and payment of the gross settlement fund are not admissions of the validity of any claim or any fact alleged by the plaintiffs and defendants continue to deny any wrongdoing and any liability.

The Florida State Board of Administration opted out of the class action settlement and that litigation continues separately from the state court class action. The parties have reached a settlement that will dispose of the case in



its entirety with no material adverse impact on the Company's consolidated financial position or results of operations.

The lawsuits discussed herein were previously reported in Forms 10-K and 10-Q filed by the Company, including the quarterly report on Form 10-Q for the period ending July 31, 2001.

#### ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS.

The registrant's Articles of Incorporation, as amended and restated, were further amended, effective upon the filing of the Certificate of Amendment with the Secretary of State of Missouri on October 15, 2001, to increase the number of authorized shares of common stock, without par value, from 400,000,000 shares to 500,000,000 shares. The aggregate number of shares of all classes of stock which the registrant now has authority to issue is 506,000,000, with the 500,000,000 authorized shares of common stock and 6,000,000 authorized shares of a class designated preferred stock, without par value. The amendment to the Articles of Incorporation was approved by the shareholders of the registrant at the annual meeting of shareholders held on September 12, 2001. The resolution approved by the shareholders is set forth in Item 4 to Part II of this Form 10-Q. The Certificate of Amendment is filed as Exhibit 3.1 to this Form 10-Q and the Restated Articles of Incorporation, incorporating all amendments thereto are filed as Exhibit 3.2 to this Form 10-Q.

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

The annual meeting of shareholders of the registrant was held on September 12, 2001. At such meeting, three Class III directors were elected to serve three-year terms. In addition, the resolutions set forth below were submitted to a vote of shareholders. With respect to the election of directors and the adoption of each resolution, the number of votes cast for, against or withheld, the number of abstentions, the number of broker non-votes (if applicable), and the number of no votes (if applicable) were as follows:

##### Election of Class III Directors

Nominee -----	Votes FOR -----	Votes WITHHELD -----
Donna R. Ecton	80,481,505	613,168
Louis W. Smith	80,468,726	625,947
Rayford Wilkins, Jr.	80,334,461	760,212

Approval of an amendment to the Articles of Incorporation to increase the number of authorized shares of Common Stock from 400,000,000 to 500,000,000

The following resolution was adopted by a vote of 78,304,397 shares in favor of such resolution, 2,010,436 shares against such resolution, 462,842 shares abstaining, and 316,998 no votes. The resolution states:

"RESOLVED, That ARTICLE THREE of the Articles of Incorporation of H&R Block, Inc., as heretofore amended, be further amended by deleting the first sentence thereof in its entirety and substituting therefore the following:

##### `ARTICLE THREE

The aggregate number of shares of all classes of stock which the corporation shall have authority to issue is 506,000,000 divided into two classes as follows:

- (i) 500,000,000 shares of a class designated Common Stock, without par value; and
- (ii) 6,000,000 shares of a class designated

Preferred Stock, without par value.'

Approval of amendments to the 1999 Stock Option Plan for Seasonal Employees

The following resolution was adopted by a vote of 56,025,998 shares in favor of such resolution, 14,363,565 shares against such resolution, and 694,477 shares abstaining. There were 10,010,633 broker non-votes. The resolution states:

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"RESOLVED, That the 1999 Stock Option Plan for Seasonal Employees, as proposed to be amended, included as Appendix A to the proxy statement relating to this meeting, is hereby adopted and approved."

Approval of amendments to the 1989 Stock Option Plan for Outside Directors

The following resolution was adopted by a vote of 58,022,054 shares in favor of the resolution, 12,109,178 shares against such resolution, and 952,806 shares abstaining. There were 10,010,635 broker non-votes. The resolution adopted was as follows:

"RESOLVED, That the 1989 Stock Option Plan for Outside Directors, as proposed to be amended, included as Appendix B to the proxy statement relating to this meeting, is hereby adopted and approved."

Appointment of Independent Accountants

The following resolution was adopted by a vote of 77,792,602 shares in favor of such resolution, 2,836,209 shares against such resolution, and 465,862 shares abstaining:

"RESOLVED, That the appointment of PricewaterhouseCoopers LLP as the independent accountants for H&R Block, Inc., and its subsidiaries for the year ending April 30, 2002 is hereby ratified, approved and confirmed."

At the close of business on July 10, 2001, the record date for the annual meeting of shareholders, there were 92,255,281 shares of common stock of the registrant outstanding and entitled to vote at the meeting. There were 81,094,673 shares represented at the annual meeting of shareholders held on September 12, 2001. Since the record date for the annual meeting of shareholders was prior to the 2-for-1 split-up of the registrant's common stock effected August 1, 2001, the number of shares reported in this report are pre-split numbers and were not adjusted for the split.

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

a) Exhibits

- 3.1 Certificate of Amendment of Articles of Incorporation of the registrant effective October 15, 2001.
- 3.2 Restated Articles of Incorporation of the registrant, as amended to the date of this Form 10-Q.

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- 10.1 The registrant's 1993 Long-Term Executive Compensation Plan, as amended August 1, 2001.
- 10.2 The registrant's 2000 Employee Stock Purchase Plan, as amended August 1, 2001.
- 10.3 The H&R Block Stock Plan for Non-Employee Directors, as amended August 1, 2001.
- 10.4 The registrant's 1989 Stock Option Plan for Outside Directors, as amended September 12, 2001.
- 10.5 The registrant's 1999 Stock Option Plan for Seasonal Employees, as amended September 12, 2001.
- 10.6 Employment Agreement dated as of October 8, 2001, between HRB

Management, Inc. and Jeffrey Brandmaier.

b) Reports on Form 8-K

The registrant did not file any reports on Form 8-K during the second quarter of fiscal year 2002.

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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 12/14/01  
-----

BY /s/ Frank J. Cotroneo  
-----  
Frank J. Cotroneo  
Senior Vice President and  
Chief Financial Officer

DATE 12/14/01  
-----

BY /s/ Cheryl L. Givens  
-----  
Cheryl L. Givens  
Vice President and Corporate Controller

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EXHIBIT 3.1  
 CERTIFICATE OF AMENDMENT OF ARTICLES OF INCORPORATION

Pursuant to the provisions of the General and Business Corporation Law of Missouri, the undersigned Corporation certifies the following:

1. The present name of the Corporation is H&R Block, Inc.  
 The name under which it was originally organized was United Business, Incorporated, of Missouri.
2. An amendment to the Corporation's Articles of Incorporation was adopted by the shareholders on September 12, 2001.
3. Article Number Three is amended to read as follows:

ARTICLE THREE, as heretofore amended, is further amended by deleting the first sentence thereof in its entirety and substituting therefor the following:

ARTICLE THREE

The aggregate number of shares of all classes of stock which the corporation shall have authority to issue is 506,000,000 divided into two classes as follows:

(i) 500,000,000 shares of a class designated Common Stock, without par value; and (ii) 6,000,000 shares of a class designated Preferred Stock, without par value.

4. Of the 92,255,281 shares outstanding, 92,255,281 of such shares were entitled to vote on such amendment.  
 The number of outstanding shares of any class entitled to vote thereon as a class were as follows:

Class	Number of Outstanding Shares
Common	92,255,281

5. The number of shares voted for and against the amendment was as follows:

Class	No. Voted For	No. Voted Against
Common	78,304,397	2,010,436

6. If the amendment changed the number or par value of authorized shares having a par value, the amount in dollars of authorized shares having a par value as changed is:

n/a

If the amendment changed the number of authorized shares without par value, the authorized number of shares without par value as changed and the consideration proposed to be received for such increased authorized shares without par value as are to be presently issued are:

Number of authorized shares of Common Stock increased by 100,000,000 shares, from 400,000,000 to 500,000,000. None of the increased authorized shares are to be presently issued.

7. If the amendment provides for an exchange, reclassification, or cancellation of issued shares, or a reduction of the number of authorized shares of any class below the number of issued shares of that class, the following is a statement of the manner in which such reduction shall be effected:

n/a

IN WITNESS WHEREOF, the undersigned, James H. Ingraham, Vice President, has executed this instrument and its Secretary or Assistant Secretary, Brian H. Schmidt, has affixed its corporate seal hereto and attested said seal on October 1, 2001.

H&R BLOCK, INC.

(Corporate Seal)

By: /s/ James H. Ingraham  
.....  
James H. Ingraham  
Senior Vice President

ATTEST:

/s/ Brian H. Schmidt  
.....  
Brian H. Schmidt  
Secretary or Assistant Secretary

FILED  
OCT 15 2001  
Matt Blunt  
SECRETARY OF STATE

STATE OF MISSOURI     )  
                          ) ss  
COUNTY OF JACKSON    )

I, Brenda L. Becker, a Notary Public, do hereby certify that on October 1, 2001 personally appeared before me James H. Ingraham who, being by me first duly sworn, declared that he/she is the Senior Vice President, General Counsel & Secretary of H&R Block, Inc., that he/she signed the foregoing documents as Senior Vice President of the corporation, and that the statements therein contained are true.

/s/ Brenda Becker  
.....  
Notary Public

My commission expires 1/20/04  
My County of Commission Jackson

BRENDA L. BECKER  
Notary Public - Notary Seal  
STATE OF MISSOURI  
Jackson County  
My Commission Expires: Jan. 20, 2004



EXHIBIT 3.2  
RESTATED ARTICLES OF INCORPORATION  
OF  
H & R BLOCK, INC.  
(As amended through September 12, 2001)

We, the undersigned, being natural persons of the age of twenty-one years or more and subscribers to the shares of the corporation under "The General and Business Corporation Act of Missouri", Chapter 351, R.S. Mo. 1949, do hereby adopt the following Articles of Incorporation.

ARTICLE ONE

The name of the corporation is: H & R BLOCK, INC.

ARTICLE TWO

The address of its initial registered office in the State of Missouri is: 3937 Main Street, in the City of Kansas City, Missouri, and the name of its initial registered agent at such address is: L. E. BLOCH, JR.

ARTICLE THREE

The aggregate number of shares of all classes of stock which the corporation shall have authority to issue is 506,000,000 divided into two classes as follows:

(i) 500,000,000 shares of a class designated Common Stock, without par value; and

(ii) 6,000,000 shares of a class designated Preferred Stock, without par value.

The voting powers, designations, preferences, qualifications, limitations, restrictions and special or relative rights in respect of each class of stock are or shall be fixed as follows:

(1) Preferred Stock. The Board of Directors is expressly authorized to issue the Preferred Stock from time to time, in one or more series, provided that the aggregate number of shares issued and outstanding at any time of all such series shall not exceed 6,000,000. The Board of Directors is further authorized to fix or alter, in respect of each such series, the following terms and provisions of any authorized and unissued shares of such stock:

- (a) The distinctive serial designation;
- (b) The number of shares of the series, which number may at any time or from time to time be increased or decreased (but not below the number of shares of such series then outstanding) by the Board of Directors;
- (c) The voting powers and, if voting powers are granted, the extent of such voting powers including the right, if any, to elect a director or directors;
- (d) The election, term of office, filling of vacancies and other terms of the directorships of directors elected by the holders of any one or more classes or series of such stock;
- (e) The dividend rights, including the dividend rate and the dates on which any dividends shall be payable;
- (f) The date from which dividends on shares issued prior to the date for payment of the first dividend thereon shall be cumulative, if any;
- (g) The redemption price, terms of redemption, and the amount of

and provisions regarding any sinking fund for the purchase or redemption thereof;

- (h) The liquidation preferences and the amounts payable on dissolution or liquidation;
- (i) The terms and conditions, if any, under which shares of the series may be converted; and
- (j) Any other terms or provisions which the Board of Directors is by law authorized to fix or alter.

(2) Common Stock. The holders of shares of Common Stock shall be entitled (i) to vote on all matters at all meetings of the shareholders of the corporation on the basis of one vote for each share of Common Stock held of record; (ii) subject to any preferential dividend rights applicable to the Preferred Stock, to receive such dividends as may be declared by the Board of Directors; and (iii) in the event of the voluntary, or involuntary, liquidation or winding up of the corporation, after distribution in full of any preferential amounts to be distributed to holders of shares of Preferred Stock, to receive all of the remaining assets of the corporation available for distribution to its shareholders, ratably in proportion to the aggregate number of their shares of Common Stock and Preferred Stock (if the holders of such Preferred Stock are entitled to share in such distribution).

(3) Provisions applicable to Common and Preferred Stock. No holder of shares of stock of the corporation of any class shall be entitled, as a matter of right, to purchase

or subscribe for any shares of stock of the corporation, of any class, whether now or hereafter authorized. The Board of Directors shall have authority to fix the issue price of any and all shares of stock of the corporation of any class.

#### ARTICLE FOUR

The number of shares to be issued before the corporation shall commence business is: Twenty (20) shares of common stock, and the consideration to be paid therefor, and the capital with which the corporation will commence business, is: Two Thousand (\$2,000.00) Dollars. All of said shares have been first duly subscribed by the undersigned incorporators and have been paid up in lawful money of the United States.

#### ARTICLE FIVE

The names and places of residence of the subscribers and shareholders, and the number of shares of stock subscribed by each, are:

Name ----	Residence -----	No. of Shares -----
R. A. Bloch	6501 Overbrook, Kansas City, Mo.	10
Henry W. Bloch	2026 W. 63rd St., Kansas City, Mo.	9
L. E. Bloch, Jr.	414 W. 58th St., Kansas City, Mo.	1

#### ARTICLE SIX

(A) Number of Directors. The number of directors to constitute the Board of Directors shall be not less than nine nor more than fifteen, the exact number to be fixed by a resolution adopted by the affirmative vote of a majority of the whole Board, but to be twelve until otherwise determined. Any change in the number of directors, as provided herein, shall be reported to the Secretary of State of Missouri within 30 calendar days of such change.

(B) Classification of Directors. At the annual meeting of the shareholders of the corporation in 1983, the directors of the corporation shall be divided into three classes: Class I, Class II and Class III. Membership in such classes shall be as nearly equal as possible and any increase or decrease in the number of directors shall be apportioned by the Board of Directors among



the classes to maintain the number of directors as nearly as equal as possible. The initial Class I directors shall hold office until the annual meeting of shareholders of the corporation in 1984, the initial Class II directors shall hold office until the annual meeting of shareholders of the corporation in 1985, and the initial Class III directors shall hold office until the annual meeting of shareholders of the corporation in 1986 or, in each case, until their successors are elected and qualified and subject to prior death, resignation, retirement or removal from office. Beginning in 1984, at each annual meeting of shareholders the directors elected to succeed those whose terms then expire shall belong to the same class as the directors they succeed and shall hold office until the third succeeding annual meeting of shareholders

or until their successors are elected and qualified and subject to the prior death, resignation, retirement or removal from office of a director. No decrease in the number of directors constituting the Board of Directors shall reduce the term of any incumbent director.

Whenever the holders of any one or more classes or series of Preferred Stock of the corporation shall have the right to elect directors, the election, term of office, filling of vacancies and other terms of such directorships shall be governed by the provisions of these Article of Incorporation applicable to such Preferred Stock and such directors shall be divided into classes pursuant to this Article Six unless expressly provided or determined as provided elsewhere in these Articles of Incorporation.

(C) Vacancies. Newly created directorships resulting from an increase in the number of directors and any vacancies on the Board of Directors resulting from any cause shall be filled by a majority of the Board of Directors then in office, although less than a quorum, or by a sole remaining director. Any director elected to fill a vacancy not resulting from an increase in the number of directors shall have the same remaining term as his or her predecessor.

(D) Removal of Directors. The entire Board of Directors of the corporation may be removed at any time but only by the affirmative vote of the holders of 80% or more of the outstanding shares of each class of stock of the corporation entitled to elect one or more directors at a meeting of the shareholders called for such purpose.

(E) Bylaws. The Board of Directors shall have the power to make, alter, amend, change, add to or repeal the Bylaws of the corporation.

#### ARTICLE SEVEN

The duration of the corporation is perpetual.

#### ARTICLE EIGHT

The purposes for which the corporation is formed are as follows:

- (1) To perform bookkeeping services, including the preparation of books of account, balance sheets and profit and loss statements, to render tax services, including the preparation of tax returns, and to perform any and all other services directly or indirectly related thereto.
- (2) To purchase, lease or otherwise acquire, hold, own, improve, develop, sell, mortgage, pledge and otherwise deal in and with real and personal property of every kind and description in the United States of America, and in any territory, colony, dependency or district thereof, and in any foreign country or countries to the extent that the same may be lawfully permissible.
- (3) To buy, sell, utilize, lease, rent, import, export, manufacture, produce, design, prepare, assemble, fabricate, distribute and otherwise deal in, either at wholesale or retail, or both, either as principal, agent or on commission, all commodities, goods, wares, merchandise, machinery, tools, devices, apparatus, equipment and all other personal property, whether tangible or

intangible, of every kind and description.

- (4) To buy, purchase, manufacture, assemble, distribute, lease (either as lessor or lessee), acquire, sell or in any manner dispose of, import, export, use, operate, rent, hire, mortgage, furnish, grant the use of, repair and generally deal in all kinds of construction, building and engineering equipment, including, but not limited to, bulldozers, castings, cranes, compressors, concrete mixers, drag lines, dump wagons, earth moving machinery and equipment, plows, pumps, road machines, road rollers, scrapes, shovels, tractors, trucks and automobile equipment, and in general all kinds of machinery, appliances, devices, implements, tools, fixtures, instruments, supplies, materials, and property of every kind and description, usable or adaptable for use by contractors and civil engineers.
- (5) To apply for, obtain, purchase, lease, take licenses in respect of or otherwise acquire, and to hold, own, use, operate, enjoy, turn to account, grant licenses in respect of, manufacture under, introduce, sell, assign, mortgage, pledge or otherwise dispose of:

- a. Any and all inventions, devices and processes and any improvements and modifications thereof;

- b. Any and all letters patent of the United States or of any other country, state or locality, and all rights connected therewith or appertaining thereto;

- c. Any and all copyrights granted by the United States or any other country, state or locality as aforesaid;

- d. Any and all trade-marks, trade names, trade symbols and other indications of origin and ownership granted by or recognized under the laws of the United States or of any other country, state or locality as aforesaid; and to conduct and carry on its business in any or all of its various branches under any trade name or trade names.

- (6) To engage in, carry on and conduct research, experiments, investigations, analyses, studies and laboratory work, for the purpose of discovering new products or to improve products, articles and things and to acquire, own, operate, maintain and dispose of, whenever the corporation deems such action desirable, laboratories and similar

facilities, plants and any and all other establishments, and to procure, own and hold all necessary equipment in respect thereof, for the purposes aforesaid.

- (7) To enter into any lawful contract or contracts with persons, firms, corporations or other entities, governments or any agencies or subdivisions thereof, including guaranteeing the obligations of any person, firm, or corporation or other entity.

- (8) To purchase and acquire, as a going concern or otherwise, and to carry on, maintain and operate all or any part of the property or business of any corporation, firm, association, entity, syndicate, or person whatsoever, deemed to be of benefit to the corporation, or of use in any manner in connection with any of its objects or purposes; and to acquire, own, hold and use and dispose of, upon such terms as may seem advisable to the corporation, any and all property, real, personal or mixed, and any interest therein deemed necessary, useful or of benefit to the corporation in any manner in connection with any of its objects or purposes.

- (9) To purchase or otherwise acquire, hold, sell, pledge, reissue, transfer or otherwise deal in shares of the corporation's own stock, provided that it shall not use its funds or property for the purchase of its own shares of stock when such use would be in any manner prohibited by law, by the articles of incorporation or by the bylaws of the corporation; and, provided further, that shares of its own stock belonging to it shall not be voted upon directly or indirectly.

(10) To invest, lend and deal with moneys of the corporation in any lawful manner, and to acquire by purchase, by the exchange of stock or other securities of the corporation, by subscription or otherwise and to invest in, to hold for investment or for any other purpose, and to deal in and use, sell, pledge, or otherwise dispose of, and in general to deal in any interest concerning or enter into any transaction with respect to (including "long" and "short" sales of) any stocks, bonds, notes, debentures, certificates, receipts and other securities and obligations of any government, state, municipality, corporation, association or other entity, including individuals and partnerships and, while owner thereof, to exercise all of the rights, powers and privileges of ownership, including, among other things, the right to vote thereon for any and all purposes and to give consent with respect thereto.

(11) To borrow or raise money for any purpose of the corporation and to secure the same and the interest accruing on any such loan, indebtedness or obligation of the corporation, and for that or any other purposes to mortgage, pledge, hypothecate or charge all or any part of the present or hereafter acquired property, rights and franchises of the corporation, real, personal, mixed or of any character whatever, subject only to limitations specifically imposed by law.

(12) To do any or all of the things hereinabove enumerated alone for its own account, or for the account of others, or as the agent for others, or in association with others or by or through others, and to enter into all lawful contracts and undertakings in respect thereof.

(13) To have one or more offices, to conduct its business, carry on its operations and promote its objects within and without the State of Missouri, in other states, the District of Columbia, the territories, colonies and dependencies of the United States and in foreign countries, without restriction as to place, manner or amount, but subject to the laws of such state, district, territory, colony, dependency or country; and to do any or all of the things herein set forth to the same extent as natural persons might or could do and in any part of the world, either alone or in company with others.

(14) In general, to carry on any other business in connection with each and all of the foregoing or incidental thereto, and to carry on, transact and engage in any and every lawful business or other lawful thing calculated to be of gain, profit or benefit to the corporation as fully and freely as a natural person might do, to the extent and in the manner, anywhere within or without the State of Missouri, as it may from time to time determine; and to have and exercise each and all of the powers and privileges, either direct or incidental, which are given and provided by or are available under the laws of the State of Missouri in respect of private corporations organized for profit thereunder; provided, however, that the corporation shall not engage in any activity for which a corporation may not be formed under the laws of the State of Missouri.

It is the intention that each of the objects, purposes and powers specified in each of the paragraphs in this Article Eight shall be in no wise limited or restricted by reference to or inference from the terms of any other paragraph, but that the objects, purposes and powers specified in each of the paragraphs of this Article Eight shall be regarded as independent objects, purposes and powers. The enumeration of the specific objects, purposes and powers of this Article shall not be construed to restrict in any manner the general objects, purposes and powers of this corporation, nor shall the expression of one thing be deemed to exclude another, although it be of like nature. The enumeration of objects, purposes or powers herein shall not be deemed to exclude or in any way limit by inference any objects, purposes or powers which this corporation has power to exercise, whether expressly or by force of the laws of the State of Missouri, now or hereafter in effect, or impliedly by any reasonable construction of such laws.

#### ARTICLE NINE

The private property of the shareholders shall not be subject to the payment of the corporate debt of the corporation.

#### ARTICLE TEN

Both the shareholders and directors shall have power, if the Bylaws so provide, to hold their meetings and to have one or more offices within or without the State of Missouri, and to keep books and records of the corporation business (subject to the provisions of the applicable laws of Missouri) outside

of the State of Missouri, at such places as may be from time to time designated by the Board of Directors.

#### ARTICLE ELEVEN

Any contract, transaction or act of the corporation or of the directors, which shall be ratified by a majority of a quorum of the shareholders having voting power at any annual meeting, or at any special meeting called for such purpose, shall, except as otherwise specifically provided by law or by the Articles of Incorporation, be as valid and as binding as though ratified by every shareholder of the corporation; provided, however, that any failure of the shareholders to approve or ratify such contract, transaction or act, when and if submitted, shall not of itself be deemed in any way to render the same invalid, nor deprive the directors of their right to proceed with such contract, transaction or act.

#### ARTICLE TWELVE

In case the corporation enters into contracts or transacts business with one or more of its directors, or with any firm of which one or more of its directors are members, or with any other corporation or association of which one or more of its directors are members or shareholders, directors or officers, such transaction or transactions shall not be invalidated or in any way affected by the fact that such director or directors have or may have interests therein which are or might be adverse to the interests of this corporation; provided that such contract or transaction is entered into in good faith and authorized or ratified in the usual course of business as may be provided for in the Bylaws of this corporation.

#### ARTICLE THIRTEEN

The corporation reserves the right to amend, alter, change, or repeal any provision contained in these Articles of Incorporation, in the manner as hereafter prescribed by statute, and all rights conferred upon stockholders herein are granted subject to this reservation.

#### ARTICLE FOURTEEN

Special meetings of the shareholders for any lawful purpose or purposes may be called only by a majority of the Board of Directors, by the holders of not less than 80% of all outstanding shares of stock of the corporation entitled to vote at an annual meeting, by the Chairman of the Board or by the President.

#### ARTICLE FIFTEEN

The affirmative vote of not less than 80% of the outstanding shares of the corporation entitled to vote in an election of directors shall be required for the approval or authorization of any Business Transaction (as hereinafter defined) with a Related Person (as hereinafter defined), whether or not such Business Transaction was approved by a lesser vote prior to the time the Related Person became a Related Person, unless:

- (1) The Business Transaction shall have been approved by a two-thirds vote of the Continuing Directors (as hereinafter defined); or
- (2) The Business Transaction is a merger or consolidation and the cash or fair market value of the property, securities or other consideration to be received per share by the holders of each class of stock of the corporation in the Business Transaction is not less than such Related Person's Highest Purchase Price (as hereinafter defined).

For purposes of this Article Fifteen:

1. The term "Business Transaction" shall mean: (a) any merger or consolidation of the corporation or any subsidiary of the corporation; (b) any sale, lease, exchange, mortgage, pledge, transfer or other disposition (in one transaction or a series

of transactions) of all or a Substantial Part (as hereinafter defined) of the assets of the corporation or any subsidiary; (c) the issuance, sale, exchange, transfer or other disposition by the corporation or any subsidiary of any securities of the corporation or any subsidiary; (d) any reclassification of securities (including any reverse stock split) or recapitalization of the corporation or any other transaction which has the effect, directly or indirectly, of increasing the voting power of a Related Person; (e) any liquidation, spinoff, split-up or dissolution of the corporation; and (f) any agreement, contract or other arrangement providing for any of the transactions described in this definition of Business Transaction.

2. The term "Related Person" shall mean and include any individual, corporation, partnership or other person or entity, other than the corporation or any wholly-owned subsidiary thereof, which, together with its "Affiliates" and "Associates" (as defined on June 1, 1983 in Rule 12b-2 under the Securities Exchange Act of 1934 (the "Exchange Act"), "Beneficially Owns" (as defined on June 1, 1983, in Rule 13d-3 under the Exchange Act) in the aggregate 15 percent or more of the outstanding shares of the corporation entitled to vote in an election of directors at the time a resolution approving the Business Transaction is adopted by a two-thirds vote of the corporation's Board of Directors or on the record date for the determination of shareholders entitled to notice of and to vote on the Business Transaction, and any Affiliate or Associate of any such individual, corporation, partnership or other person or entity.
3. The term "Continuing Director" shall mean any member of the Board of Directors of the corporation who was either a member of the Board of Directors prior to the time that the Related Person became a Related Person or who subsequently became a director of the

corporation and whose election, or nomination for election by the corporation's shareholders, was approved by a vote of a majority of the Continuing Directors.

4. The term "Highest Purchase Price" shall mean the highest amount of consideration paid by such Related Person for a share of the corporation's Common Stock within one year prior to the date such person became a Related Person or in the transaction that resulted in such Related Person becoming a Related Person, provided that the Highest Purchase Price shall be appropriately adjusted for stock splits, stock dividends and like distributions.
5. The term "Substantial Part" shall mean more than 20% of the fair market value of the total assets of the entity in question, as of the end of its most recent fiscal year ending prior to the time the determination is made.

#### ARTICLE SIXTEEN

The affirmative vote of the holders of not less than 80% of the outstanding shares of stock of this corporation entitled to vote generally in the election of directors shall be required to amend, modify, alter or repeal Articles Three, Six, Fourteen, Fifteen and Sixteen of these Articles of Incorporation or any provision of the corporation's Bylaws, provided that the affirmative vote of a majority of the votes entitled to be cast shall be sufficient to approve any such amendment, modification, alternation or repeal that has been adopted by a vote of 80% of the members of the Board of Directors and that the power of the Board of Directors to amend, modify, alter or repeal any Bylaw shall be governed by Section E of Article Six.

IN WITNESS WHEREOF, we have hereunto set our hands this 10th day of June, 1955.

/s/ R. A. Bloch  
-----  
R. A. BLOCH

/s/ Henry W. Bloch  
-----  
HENRY W. BLOCH

/s/ L. E. Bloch, Jr.  
-----  
L. E. BLOCH, JR.

H & R Block, Inc., a Missouri corporation whose original Articles of Incorporation were filed with the Secretary of State of Missouri on July 27, 1955, hereby states that the Restated Articles of Incorporation were duly adopted by a vote of the shareholders in accordance with the General and Business Corporation Law of Missouri, Section 351.106; that the Restated Articles of Incorporation correctly set forth without change the corresponding provisions of the Articles of Incorporation as theretofore amended, and that the Restated Articles of Incorporation supersede the original Articles of Incorporation and all amendments thereto.

IN WITNESS WHEREOF, the undersigned has caused these Restated Articles of Incorporation to be executed this 2 day of September, 1976.

H & R BLOCK, INC.

By /s/ Henry W. Bloch  
-----  
Henry W. Bloch, President

By /s/ Richard A. Bloch  
-----  
Richard A. Bloch, Secretary

(CORPORATE SEAL)

STATE OF MISSOURI       )  
                          ) SS  
COUNTY OF JACKSON     )

I, Corine Craig, a Notary Public, do certify that on this 2 day of September, 1976, personally appeared before me, HENRY W. BLOCH, who, being by me first duly sworn, declared that he is the President of H & R Block, Inc., that he signed the foregoing document as President of the corporation and that the statements therein contained are true.

/s/ Corine Craig  
-----  
Notary Public

Corine Craig  
My commission expires Dec. 12, 1978

H&R BLOCK, INC.

1993 LONG-TERM EXECUTIVE COMPENSATION PLAN  
(As Amended Through August 1, 2001)

1. PURPOSES. The purposes of this 1993 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) COMMON STOCK means the Common Stock, without par value, of the Company.

(c) COMPANY means H&R Block, Inc., a Missouri corporation, and, unless the context otherwise requires, includes its subsidiary corporations and their respective divisions, departments and subsidiaries and the respective divisions, departments and subsidiaries of such subsidiaries.

(d) 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 of 1986, as now in effect or hereafter amended (the "Internal Revenue Code").

(e) 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.

(f) 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.

(g) 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.

(h) PLAN means this 1993 Long-Term Executive Compensation Plan, as the same may be amended from time to time.

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

(j) 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.

(k) 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.

(l) 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 a Compensation Committee (the "Committee") consisting 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, as hereafter amended), (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

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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 26,000,000 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. No more than an aggregate of five percent (5%) of the total number of shares of Common Stock issuable under this Plan may be issued or issuable in connection with Awards that constitute Common Stock, Restricted Shares, Performance Shares and



Performance Units. 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 700,000, 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.

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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

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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.

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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 under the Plan payable in shares of Common Stock may provide that the Recipients thereof may elect, in accordance with any applicable regulations, to have the Company withhold shares of Common Stock to satisfy all or part of any such tax withholding obligations, with the value of such withheld shares of Common Stock based upon their fair market value on the date the tax withholding is required to be made.

19. COSTS AND EXPENSES. The cost and expenses of administering the Plan shall be borne by the Company and not charged to any Award nor 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

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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 September 7, 2003, 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 September 7, 2003, 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 upon due approval by the shareholders of the Company.

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H&R BLOCK, INC.  
2000 EMPLOYEE STOCK PURCHASE PLAN  
(as amended August 1, 2001)

## SECTION 1. PURPOSE OF PLAN

The H&R Block, Inc. 2000 Employee Stock Purchase Plan (the "Plan") is designed to encourage and assist employees of the subsidiaries of H&R Block, Inc. (collectively H&R Block, Inc. ("Block") and such subsidiaries shall be referred to as the "Company") to acquire an equity interest in Block through the purchase of shares of Block common stock, without par value ("Common Stock"). This Plan is intended to constitute an "employee stock purchase plan" within the meaning of Section 423 of the Internal Revenue Code (the "Code").

## SECTION 2. ADMINISTRATION OF THE PLAN

The Plan shall be administered by Block's Board of Directors (the "Board") or by a committee of the Board (the "Committee") appointed by the Board and serving at its pleasure (the Board or any such Committee being herein referred to as the "Administrator"). Until such time as the Board shall determine otherwise, the Compensation Committee of the Board shall serve as Administrator. The Administrator shall have full power and authority, not inconsistent with the express provisions of the Plan, to administer and interpret the Plan, including the authority to:

- (i) grant options and authorize the issuance of shares;
- (ii) make and amend all rules, regulations, guidelines, procedures and policies for administering the Plan;
- (iii) decide all questions and settle all disputes that may arise in connection with the Plan;
- (iv) appoint persons and entities to act as designated representatives on its behalf in administering the Plan pursuant to its provisions (in which case the term "Administrator" as used herein shall include such persons or entities to the extent of such appointment);
- (v) establish accounts with a person or entity appointed pursuant to (iv) above ("Custodian") to hold Common Stock purchased under the Plan ("Stock Account");
- (vi) cause Block to enter into a written agreement with the Custodian setting forth the terms and conditions upon which Stock Accounts shall be governed ("Custodial Agreement"); and
- (vii) require Participants to hold shares of Common Stock under the Plan in Stock Accounts (in which case each Participant's decision to participate in the Plan shall constitute the appointment of such Custodian as custodial agent for the purpose of holding such shares) until such time as shall be specified in the Custodial Agreement.

All interpretations, decisions and determinations made by the Administrator shall be binding on all persons concerned.

## SECTION 3. NATURE AND NUMBER OF SHARES

The Common Stock subject to issuance under the terms of the Plan shall be authorized but unissued shares or previously issued shares reacquired and held by the Company. The aggregate number of shares that may be issued under the Plan shall not exceed 6,000,000 shares of Common Stock.

In the event of any reorganization, recapitalization, stock split, reverse stock split, stock dividend, combination of shares, exchange of shares, merger, consolidation, offering of rights or other similar change in the capital structure of the Company, the Board or the Committee may make such adjustment, if any, as it deems appropriate in the number, kind and purchase price of the shares available for purchase under the Plan and in the maximum number of shares which may be issued under the Plan.

#### SECTION 4. ELIGIBILITY

Each individual employed by a Participating Subsidiary (as hereinafter defined), except as provided below, shall be eligible to participate in the Plan ("Employee"). The following individuals shall be excluded from participation:

(a) Persons who, as of the date of grant of an Option, have been continuously employed by the Participating Subsidiary for less than twelve (12) consecutive months;

(b) Persons who, immediately upon the grant of an Option, own directly or indirectly, or hold options or rights to acquire, an aggregate of five percent (5%) or more of the total combined voting power or value of all outstanding shares of all classes of Block or any Subsidiary; and

(c) Persons who are customarily employed by the Company less than twenty (20) hours per week or for not more than five (5) months in any calendar year.

For purposes of the Plan, a "Subsidiary" is any corporation or other entity in which Block owns, directly or indirectly, stock (or other ownership interests) possessing fifty percent (50%) or more of the total combined voting power of all classes of stock (or other ownership interests). A "Participating Subsidiary" is any Subsidiary meeting the requirements above that is designated by the Board or the Committee as a subsidiary whose employees are eligible to participate in the Plan.

#### SECTION 5. ENROLLMENT AND WITHDRAWAL

Each eligible Employee may enroll or re-enroll in the Plan as of the first day of any Option Period (as hereinafter defined) after the Employee first becomes eligible to participate. To enroll, an Employee must complete and sign an enrollment form (including a payroll deduction authorization) in a form acceptable to the Administrator and submit it to the Company, or use such other means to enroll as is authorized by the Administrator, at least 15 calendar days prior to the commencement of such Option Period or by such other date as the Administrator may prescribe. Participation in the Plan is voluntary. A "Participant" shall be an Employee enrolled in the Plan.

A Participant will automatically be enrolled in all future Option Periods unless the Participant withdraws from the Plan. If a Participant withdraws from the Plan, he or she

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will cease to be a Participant and may only participate in future Option Periods if he or she re-enrolls in the Plan. Any Participant may withdraw from the Plan by notifying the Company at any time during the Option Period prior to the Purchase Date (as defined below). Upon such a withdrawal, the entire amount contributed to the Plan by the Participant (and not yet used to purchase Common Stock) will be refunded without interest as soon as administratively practicable.

#### SECTION 6. GRANT OF OPTIONS

Under the Plan, each "Option Period" shall be a period of approximately six (6) months beginning on January 1 and July 1, respectively, and ending on June 30 and December 31, respectively, or such other period as the Board or the Committee may designate from time to time.

Each person who is a Participant on the first day of an Option Period (the "Grant Date") will as of such day be granted an option for the Period (the "Option"). Such Option will be for the number of whole and fractional shares of Common Stock to be determined by dividing (i) the balance credited to the Participant's Payment Account (as defined in Section 7(b)) during such Option Period by means of payroll deduction (or such other means deemed acceptable by the Administrator) as of the Purchase Date (as determined under Section 8 below), by (ii) the purchase price per share of the Common Stock as determined under Section 8.

In no event shall a Participant be entitled to purchase, for any Option Period, more than the lesser of (i) the number of shares obtained by dividing \$25,000 by the fair market value of a share of Common Stock on the Grant Date for such Option Period, or (ii) the maximum number of shares permitted to be purchased under Section 7(c) below.

The Administrator will reduce, on a substantially proportionate basis, the number of shares of Common Stock receivable by each Participant upon exercise of his or her Option for an Option Period in the event that the number of shares then available under the Plan is otherwise insufficient, and will return to Participant without interest any remaining unused balance in the Participant's Payment Account as soon as administratively practicable.

#### SECTION 7. METHOD OF PAYMENT

(a) Form of Payment. Payment for shares shall be made in installments through after-tax payroll deductions over the Option Period, with such deductions taken from pay periods ending during the Option Period, or in such other form of payment deemed acceptable by the Administrator.

Subject to the limits below and in Section 8, each Participant may elect through payroll withholding during the Option Period (or such other means deemed acceptable by the Company) to have credited to his or her Payment Account an amount not less than one percent, and not greater than ten percent (10%) of Compensation (as defined below); provided that the Administrator from time to time before an enrollment date may establish limits other than those herein described for all purchases to occur during the relevant Option Period.

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For purposes of the Plan, "Compensation" shall mean all compensation paid to the Participant by the Company and currently includible in his or her income, including such amounts as commissions, overtime, and other amounts includible in the general definition of compensation provided in Treasury Regulation ss.1.415-2(d)(1), plus any amount that would be so included but for the fact that it was contributed to (a) a qualified plan pursuant to an elective deferral under Section 401(k) of the Code, (b) a nonqualified deferred compensation plan, and/or (c) a cafeteria plan on a before-tax basis pursuant to an election under Section 125 of the Code, but not including (i) payments under stock option plans and other employee benefit plans or other amounts excluded from the definition of compensation provided in the Treasury Regulations under Section 415 of the Code, (ii) bonuses or compensation paid under short-term incentive plans, and (iii) reimbursements or other expense allowances, fringe benefits (cash and noncash), moving expenses, payments of benefits under nonqualified deferred compensation plans, and welfare benefits.

A Participant may increase or decrease the rate of withholding on a prospective basis effective as to future pay periods within an Option Period by giving not less than two (2) weeks prior written notice (in a form acceptable to the Administrator) to the Company.

(b) Accounts. A "Payment Account" means the book entry account maintained by the Company or Administrator to record the amount of Participant's payments made pursuant to Section 7(a) and any cash amount carried forward from an Option Period to the Grant Date for the next Option Period pursuant to Section 9. All payments by each Participant shall be credited to such Participant's Payment Account pending the purchase of Common Stock in accordance with the provisions of the Plan. All such amounts in the Payment Account shall be assets of the Company and may be used by the Company for any corporate purpose. No interest will be paid on amounts credited to a Participant's Payment Account.

(c) Limits on Purchase. In no event shall the rights of any Participant to purchase shares (under this Plan and under any other stock purchase plans of Block or any Subsidiary) accrue at a rate that exceeds \$25,000 as measured by the fair market value of such shares (determined in the case of each such share as of the date of grant of the related option) for the calendar year.

#### SECTION 8. PURCHASE PRICE

The purchase price of Common Stock issued pursuant to the exercise of an Option shall be ninety percent (90%) of the lower of the fair market value of

Common Stock on (a) the Grant Date for the Option Period, or (b) the fair market value of Common Stock on the last trading day of the Option Period (the "Purchase Date").

Fair market value shall mean the closing price of Common Stock on the New York Stock Exchange or other national securities exchange on which the Common Stock is then principally traded or, if that measure of price is not available, on a composite index of such exchanges or, if that measure of price is not available, in a national market system for securities. In the event that there are no sales of Common Stock on any such exchange or market on the Grant Date, the fair market value of the Common Stock shall be deemed to be the closing sales price on the next following day on which Common Stock was sold on any such exchange or market. In the event that there are no sales of

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Common Stock on any such exchange or market on the Purchase Date, the fair market value of the Common Stock shall be deemed to be the closing sales price on the next preceding day on which Common Stock was sold on any such exchange or market. In the event that the Common Stock is not listed on any such market or exchange on the Grant or Purchase Dates, a reasonable valuation of the fair market value of the Common Stock on such dates shall be made by the Administrator.

#### SECTION 9. EXERCISE OF OPTIONS; SIX-MONTH HOLDING PERIOD

If an Employee is a Participant in the Plan on a Purchase Date, he or she will be deemed to have exercised the Option granted to him or her for the period ending on that Purchase Date. Upon such exercise, the Company will apply the balance of the Participant's Payment Account to the purchase of the number of whole or fractional shares of Common Stock determined under Section 6 and, as soon as practicable thereafter, will issue and deliver said whole shares to the Participant (unless Stock Accounts are established by the Administrator pursuant to Section 2 of the Plan). Any cash remaining in the Participant's Payment Account and the cash value of any fractional shares of Common Stock shall either be carried forward to the next Grant Date (without interest) and become a part of the Payment Account for the Option Period to which such next Grant Date applies, or, upon written request of the Participant to the Administrator, be paid to Participant without interest (unless Stock Accounts are established by the Administrator pursuant to Section 2 of the Plan).

Notwithstanding anything herein to the contrary, Block's obligation to issue and deliver whole shares of Common Stock under the Plan will be subject to the approval required by any governmental authority in connection with the authorization, issuance, sale or transfer of said shares, to any requirements of any national securities exchange applicable thereto, and to compliance by Block with other applicable legal requirements in effect from time to time.

Any shares of Common Stock issued under the Plan may not be sold, transferred or assigned for a period of six months after the date issued. Each certificate representing shares of Common Stock issued under this Plan during such six-month period shall bear the following legend:

"The Shares represented by this certificate may not be sold, transferred or assigned, and the issuer shall not be required to give effect to any attempted sale, transfer or assignment, until a date that is more than six months after the date of issuance of this certificate.";

or such other legend as shall be approved by the Administrator.

#### SECTION 10. TERMINATION OF EMPLOYMENT

Subject to Section 11, upon the termination of a Participant's employment with the Company for any reason, the Participant's Payment Account balance shall be frozen to future accruals and the Participant shall be withdrawn from Plan participation and cease to be a Participant. Upon the cessation of participation, any Option held by the Participant under the Plan will be deemed cancelled, the balance of the Participant's Payment Account will be returned to the Participant or, in the case of death, refunded in accordance with Section 11, without interest, as soon as administratively practicable and

the Participant will have no further rights under the Plan.

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#### SECTION 11. DEATH OF A PARTICIPANT

Each Participant may designate one or more beneficiaries who, in the event of the Participant's death, would receive any Common Stock and/or cash credited to the Participant under the Plan. In the case of a Participant who is married at time of death, the Administrator may condition any designation of a beneficiary other than the Participant's spouse on the written consent of such spouse. A designation of beneficiary and election may be changed by the Participant at any time. Any such designation or change in designation, if made in accordance with the Plan and in a form and manner that is acceptable to the Administrator, shall be effective upon receipt by the Company and shall be the exclusive means of designating a beneficiary under the Plan. In the absence of a proper beneficiary designation under the Plan, the balance in the deceased Participant's Payment Account under the Plan will be refunded without interest to his or her estate.

As soon as administratively feasible after the death of a Participant, any Common Stock and/or cash credited to the Participant under the Plan shall be delivered to the Participant's designated beneficiaries or, in the absence of such designation, to the executor, administrator or other legal representative of the Participant's estate. Such delivery and payment shall relieve the Company of further liability to the deceased Participant or his or her beneficiaries with respect to the Plan. If more than one beneficiary is designated, each beneficiary shall receive an equal portion of the Payment Account and, if any, the Stock Account, unless the Participant has given express contrary instructions.

#### SECTION 12. ASSIGNMENT

Except as provided in Section 11 above, funds, securities, rights or other property held for the account of a Participant shall not be sold, pledged, assigned, transferred, or hypothecated in any way (whether by operation of law or otherwise) and shall not be subject to sale under execution, attachment, or similar process. A Participant's right to purchase shares under the Plan shall be exercisable during the Participant's lifetime only by the Participant. If this provision is violated, the Participant's election to purchase Common Stock shall terminate and the only obligation of the Company remaining under the Plan will be to refund to the Participant the amount then credited to his or her Payment Account and deliver to Participant any whole shares of Common Stock credited to him or her under any Stock Account.

#### SECTION 13. EQUAL RIGHTS AND PRIVILEGES

All eligible Employees shall have equal rights and privileges with respect to the Plan so that the Plan qualifies as an "employee stock purchase plan" within the meaning of Section 423 or any successor provisions of the Code and related regulations. Any provision of the Plan that is inconsistent with Section 423 or any successor provision of the Code shall without further act of amendment by the Company be reformed to comply with the requirements of Section 423. This Section 13 shall take precedence over all other provisions of the Plan.

#### SECTION 14. RIGHTS AS STOCKHOLDER

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A Participant shall have no rights as a stockholder under an Option until he or she becomes a stockholder as herein provided. A Participant will become a stockholder with respect to shares for which payment has been completed as provided in Section 8 as of the close of business on the Purchase Date for the Option Period.

#### SECTION 15. MODIFICATION AND TERMINATION OF THE PLAN



The Board or the Committee may terminate the Plan at any time and may at any time and from time to time amend the Plan in any manner permitted by law. No amendment shall be effective unless within one (1) year after it is adopted by the Board it is approved by Block's shareholders in the manner prescribed under the Treasury Regulations under Section 423 of the Code, if such amendment would:

- (i) increase the number of shares reserved for purchase under the Plan, unless such increase is by reason of any change in the capital structure of the Company referred to in Section 3 hereof;
- (ii) change the designation of corporations or other entities whose employees may be offered Options under the Plan, except as permitted under Treasury Regulations ss.1.423-2(c)(4);
- (iii) materially modify the requirements as to eligibility for participation in the Plan; or
- (iv) materially increase the benefits accruing to Participants under the Plan.

In the event the Plan is terminated, the Board or Committee may elect to terminate all outstanding Options either immediately or upon completion of the purchase of shares on the next Purchase Date, unless the Board has determined that the right to make all such purchases shall expire on some other designated date occurring prior to the next Purchase Date. If Options are terminated prior to expiration, all funds contributed to the Plan that have not been used to purchase shares shall be returned without interest to the Participants.

#### SECTION 16. BOARD AND SHAREHOLDER APPROVAL; EFFECTIVE DATE

This Plan was adopted by the Board on June 28, 2000. The Effective Date of the Plan shall be September 13, 2000, subject to shareholder approval at the annual meeting of shareholders of H&R Block, Inc. on that date.

#### SECTION 17. OTHER PROVISIONS

Options and other documentation under the Plan shall contain such other provisions as the Administrator shall deem advisable, provided that no such provision shall conflict with the express terms of the Plan.

#### SECTION 18. EMPLOYMENT RIGHTS

Nothing contained in the provisions of the Plan shall be construed to give to any individual the right to be retained in the employ of the Company or to interfere with the right of the Company to discharge any employee at any time.

H&R BLOCK STOCK PLAN  
FOR NON-EMPLOYEE DIRECTORS  
(As Amended Through August 1, 2001)

## ARTICLE I - PURPOSE OF THE PLAN

1.1 Purpose of Plan. H&R Block, Inc. (the "Company") adopts the H&R Block Stock Plan for Non-Employee Directors (the "Plan") to provide for payment in shares of the Company's Common Stock, without par value ("Stock"), of the retainers and meeting fees of members of the Board of Directors of the Company who are not employees of the Company or any of its affiliates or subsidiaries ("Non-Employee Directors"), on a deferred basis. The Plan also provides for an optional award of Stock Units (as defined in Section 3.1) to directors participating in the H&R Block, Inc. Retirement Plan for Non-Employee Directors ("Retirement Plan") upon the termination of the Retirement Plan and in lieu of benefits under such Retirement Plan. The Plan is intended to provide Non-Employee Directors with a larger equity interest in the Company, to enhance the identity of interests between Non-Employee Directors and the shareholders of the Company, and to assist the Company in attracting and retaining well-qualified individuals to serve as Non-Employee Directors.

## ARTICLE II - ELIGIBILITY AND PARTICIPATION

2.1 Eligibility and Participation. Only Non-Employee Directors shall be eligible to participate in the Plan, provided that, if a Non-Employee Director becomes an employee of the Company or one or more of its affiliates or subsidiaries after he or she commences participation in the Plan, he or she shall remain eligible and shall continue to participate in the Plan until his or her service as a director of the Company terminates and all benefits under the Plan are paid. An eligible Plan participant may be referred to herein as "Participant."

## ARTICLE III - STOCK UNITS AND DIRECTOR COMPENSATION DEFERRAL ELECTIONS

3.1 Retainers Payable in Stock Units. Each Non-Employee Director may elect to have his or her director retainer fee that is payable in quarterly installments, or in any other manner (determined without regard to the Plan) (the "Retainer") paid in units ("Stock Units"), with each Stock Unit equivalent to one share of Stock, and deferred in accordance with the Non-Employee Director's deferral election.

3.2 Meeting Fees Payable in Stock Units. Each Non-Employee Director may elect to have fees for attendance at meetings of the Company's Board of Directors and/or committees thereof (determined without regard to the Plan) ("Meeting Fees") paid in Stock Units and deferred in accordance with the Non-Employee

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Director's deferral election.

3.3 Deferral Elections. An election under either Section 3.1 or 3.2 to have Retainer or Meeting Fees, as the case may be, paid in Stock Units and deferred must be made in writing and delivered to the Company prior to the start of the calendar year in which the Retainer or Meeting Fees would otherwise be paid (but for the deferral election) and such election will be irrevocable for the affected calendar year. To participate in the Plan during the calendar year in which the Plan becomes effective, the Non-Employee Director must make an election to defer Retainer and/or Meeting Fees for services to be performed subsequent to the election within 30 days after the Effective Date (as defined in Section 13.1) and such election will be irrevocable for the remainder of the affected calendar year. To participate in the Plan during the first calendar year in which a Non-Employee Director becomes eligible to participate in the Plan, the new Non-Employee Director must make an election to defer Retainer and/or Meeting Fees for services to be performed subsequent to the election within 30 days after the date he or she becomes eligible and such election will be irrevocable for the remainder of the affected calendar year. Each election shall remain in effect until revoked in writing, and any such revocation shall become effective no earlier than the first day of the first calendar year commencing after such revocation is received by the Company.

3.4 Crediting Stock Units to Accounts. Amounts deferred by a Non-Employee

Director pursuant to Section 3.3 shall be credited in Stock Units as of the date that payment would otherwise have been made in cash to a bookkeeping account maintained by the Company for such Participant ("Account"). The number of Stock Units credited to an Account with respect to any Non-Employee Director shall equal the amount deferred divided by the Fair Market Value of one share of Stock on the date on which such cash amount would have been paid but for the deferral election pursuant to Section 3.3. For purposes of the Plan, the "Fair Market Value" of Stock on any business day shall be the average of the high and low sales prices quoted for such Stock on the New York Stock Exchange Composite Listing on the day in question, or if there was no quotation on such date, on the next preceding business day on which there was such a quotation. To the extent that the application of any formula described in this Section 3.4 does not result in a whole number of shares of Stock, the result shall be rounded upwards to the next whole number such that no fractional shares of Stock shall be issued under the Plan.

3.5 Fully Vested Stock Units. All Stock Units credited to a Participant's Account pursuant to this Article III shall be at all times fully vested and nonforfeitable.

3.6 Payment of Stock Units. A deferral election made in accordance with Section 3.3 shall specify the date (the "Deferred Payment Date") on which the Participant elects to receive payment for the Stock Units credited to such Participant's Account pursuant to this Article III. Such Stock Units shall be paid in an equal

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number of shares of Stock in a single distribution made on the Deferred Payment Date specified by the Participant in the applicable deferral election, provided that the Deferred Payment Date with respect to any election must be at least two years after the first day of the calendar year during which the Stock Unit was credited to the Participant's Account.

ARTICLE IV - AWARD OF STOCK UNITS IN LIEU OF BENEFITS UNDER THE H&R BLOCK, INC. RETIREMENT PLAN FOR NON-EMPLOYEE DIRECTORS

4.1 Award of Stock Units. Each Non-Employee Director serving as such as of June 18, 1997 (the "Retirement Plan Termination Date") may, at his or her option, have credited to his or her Account as of the Effective Date a number of Stock Units equal to the quotient obtained by dividing (a) the present value on the Retirement Plan Termination Date of his or her accrued benefits under the Retirement Plan, as determined by an independent actuarial consultant without regard to any service requirements under such Retirement Plan and utilizing an annual director retainer rate equal to the annual retainer for Non-Employee Directors in effect on the Retirement Plan Termination Date, divided by (b) the Fair Market Value of one share of Stock on the Retirement Plan Termination Date, provided, however that notwithstanding this formula, no such Non-Employee Director shall be credited with less than 1,000 Stock Units pursuant to the provisions of this Section 4.1. To the extent that the application of the formula described in this Section 4.1 results in a number of Stock Units other than an even 100-lot number of Stock Units, the result shall be rounded up upwards to the next 100-lot whole number of Stock Units. For example, if the application of the formula results in an award of 1,055.625 Stock Units, the actual award shall be rounded up to 1,100 Stock Units. A Non-Employee Director who elects to defer under the H&R Block Deferred Compensation Plan for Directors, as amended, the present value of accrued benefits under the Retirement Plan (determined as of the Retirement Plan Termination Date) shall not be eligible for an award of Stock Units under this Section 4.1 of the Plan.

4.2 Fully Vested Stock Units. All Stock Units credited to a Participant's Account pursuant to this Article IV shall be at all times fully vested and nonforfeitable.

4.3 Payment of Stock Units. Upon termination of service as a director of the Company for any reason, the total number of Stock Units credited to the Participant's Account pursuant to this Article IV shall be paid to the Participant in equal number of shares of Stock in a single distribution, provided that no payment pursuant to this Section 4.3 shall be made less than one year after the Effective Date.

4.4 Award in lieu of Benefits. The Stock Units credited to the Participant's Account pursuant to this Article IV are so credited in consideration of the termination of the Retirement Plan and in lieu of any benefits under the Retirement Plan. The Non-Employee Directors shall not be entitled to any other benefits under the Retirement Plan.

#### ARTICLE V - DIVIDEND EQUIVALENT PAYMENTS

5.1 Dividend Equivalent Payments. As of each cash dividend payment date with respect to Stock, each Participant shall have credited to his or her Account the number of Stock Units equal to the quotient obtained by dividing (a) the product of (i) the cash dividend payable with respect to each share of Stock on such date and (ii) the total number of Stock Units credited to his or her Account as of the close of business on the record date applicable to such dividend payment date, by (b) the Fair Market Value of one share of Stock on such dividend payment date. To the extent that the application of the formula described in this Section 5.1 does not result in a whole number of Stock Units, the result shall be rounded upwards to the next whole number.

5.2 Deferral, Vesting and Payment of Stock Units under Article V. Each Stock Unit determined and credited to the Participant's Account in accordance with Section 5.1 shall automatically be deferred and shall be fully vested at all times. Upon termination of service as a director of the Company for any reason, the total number of Stock Units credited to the Participant's Account pursuant to this Article V shall be paid to the Participant in equal number of shares of Stock in a single distribution, provided that no payment pursuant to this Section 5.2 shall be made less than one year after the Effective Date.

#### ARTICLE VI - DELIVERY OF STOCK CERTIFICATES

6.1 Stock Unit Payments. The Company shall issue and deliver to the Participant a Stock certificate for payment of Stock Units as soon as practicable following the date on which Stock Units are payable.

#### ARTICLE VII - STOCK

7.1 Authorized Stock. The aggregate number of shares of Stock that may be issued under the Plan shall not exceed three hundred thousand (600,000) shares, unless such number of shares is adjusted as provided in Article VIII of the Plan. Such shares of Stock may be authorized but unissued shares, treasury shares or shares acquired in the open market for the account of the Participant.

7.2 Fractional Shares. No fractional shares of Stock shall be issued under the Plan under any circumstances.

#### ARTICLE VIII - ADJUSTMENT UPON CHANGES IN CAPITALIZATION

8.1 Adjustment Upon Changes in Capitalization. In the event of a stock dividend, stock split or combination, reclassification, recapitalization or other capital adjustment of shares of Stock, the number of shares of Stock that may be issued pursuant to Stock Units and the number of Stock Units credited to

Accounts shall be appropriately adjusted by the Board of Directors of the Company, whose determination shall be final, binding on the Company and the Participants and conclusive.

8.2 No Effect on Rights of Company. The grant of Stock Units pursuant to the Plan shall not affect in any way the right or power of the Company to issue additional Stock or other securities, make adjustments, reclassifications, reorganizations or other changes in its corporate, capital or business structure, to participate in a merger, consolidation or share exchange or to transfer its assets or dissolve or liquidate.

## ARTICLE IX - TERMINATION OR AMENDMENT OF THE PLAN

9.1 In General. The Plan shall remain in effect until all shares of Stock authorized for issuance under the Plan have been issued. The Board of Directors of the Company may at any time terminate, suspend or amend the Plan. If the Plan shall at any time be terminated pursuant to this Section 9.1, Stock Units credited to a Participant's Account shall be paid in equal number of shares of Stock in a single distribution as if the Participant had terminated his or her service as a director of the Company, provided that no payment pursuant to this Section 9.1 shall be made less than one year after the Effective Date.

9.2 Written Consents. No amendment may adversely affect the right of any Participant to receive any Stock pursuant to an outstanding Stock Unit without the written consent of such Participant.

## ARTICLE X - GOVERNMENT REGULATIONS

### 10.1 Government Regulations.

(a) The obligations of the Company to issue any Stock pursuant to the Plan shall be subject to all applicable laws, rules and regulations and the obtaining of all such approvals by governmental agencies as may be deemed necessary or appropriate by the Board of Directors of the Company.

(b) The Board of Directors of the Company may make such changes to the Plan as may be necessary or appropriate to comply with the rules and regulations of any governmental authority.

## ARTICLE XI - ADMINISTRATION

11.1 In General. The Plan shall be administered by the Compensation Committee of the Board of Directors (the "Committee"), which shall have full power and authority, subject to the provisions of the Plan, to supervise administration of the Plan and to interpret the provisions of the Plan and of any

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award, issuance or payment of Stock Units hereunder. Any decision by the Committee shall be final and binding on all parties. No member of the Committee shall be liable for any determination made, or any decision or action taken with respect to the Plan or any award, issuance or payment of Stock Units under the Plan. The Committee may delegate any of its responsibilities to one or more agents, including employees of the Company or one or more of its affiliates and subsidiaries, and may retain advisors to provide advice to the Committee. No Participant shall participate in the making of any decision with respect to any question relating to any Stock Unit issued under the Plan exclusively to that Participant.

11.2 Rules and Interpretation. The Committee shall be vested with full authority to make such rules and regulations as it deems necessary to administer the Plan and to interpret and administer the provisions of the Plan in a uniform manner. Any determination, decision or action of the Committee in connection with the construction, interpretation, administration or application of the Plan shall be final, conclusive and binding on all parties.

11.3 Expenses. The cost of issuing and paying Stock Units pursuant to the Plan and the expenses of administering the Plan shall be borne by the Company.

## ARTICLE XII - MISCELLANEOUS

12.1 Unfunded Plan. The Plan shall be unfunded with respect to the Company's obligation to pay any Stock Units and a Participant's rights to receive any payment of any Stock Unit shall not be greater than the rights of an unsecured general creditor of the Company.

12.2 Assignment; Non-Alienation. Stock Units, the right to receive Stock Units under the Plan and the right to receive payment with respect to a Stock Unit under the Plan are not assignable or transferable and shall not be subject in any manner to alienation, sale or any encumbrances, liens, levies, attachments, pledges or charges of the Participant or his or her creditors. Any attempt to

assign, transfer or hypothecate any Stock Unit, any right to receive Stock Units or the right to receive payment with respect to a Stock Unit shall be void and of no force and effect.

12.3 Death Benefit; Designation of Beneficiaries. Upon the death of a Participant, the Stock Units remaining in his or her Account as of the date of death shall be paid to the beneficiary or beneficiaries of the Participant, or to his or her estate, as described in this Section 12.3, in equal number of shares of Stock in a single distribution. A Participant may designate a beneficiary or beneficiaries to receive any payments under the Plan upon his or her death. A beneficiary designation shall be in writing on a form acceptable to the Company and shall be effective only upon delivery to the Company. A beneficiary designation may be revoked by a Participant at any time by delivering to the

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Company either written notice of revocation or a new written beneficiary designation. The written beneficiary designation last delivered to the Secretary of the Company prior to the death of the Participant shall control. If no beneficiary has been designated, amounts due hereunder shall be paid to the Participant's estate.

12.4 Release. Any payment of Stock Units to or for the benefit of a Participant or his or her beneficiaries that is made in good faith by the Company in accordance with the Company's good faith interpretation of its obligations hereunder shall be in full satisfaction of all claims against the Company for benefits under the Plan to the extent of such payment.

12.5 No Guarantee of Directorship. Neither the adoption and maintenance of the Plan nor any election made hereunder by a Participant shall be deemed to be a contract between the Company and the Participant to retain his or her position as a director of the Company.

12.6 Applicable Law. The validity, interpretation and administration of the Plan and any rules, regulations, determinations or decisions hereunder, and the rights of any and all persons having or claiming to have any interest herein or hereunder, shall be determined exclusively in accordance with the laws of the State of Missouri (without regard to the choice of laws provisions thereof), except to the extent such laws are preempted by the laws of the United States of America.

12.7 Notices. All notices, elections or other communications made or given pursuant to the Plan shall be in writing and shall be sufficiently made or given if hand-delivered or mailed by certified mail, addressed (if from the Company to the Participant) to any Participant at the address contained in the records of the Company for such Participant, or addressed (if from the Participant to the Company) to the Secretary of the Company at its principal office.

12.8 Headings. The headings in the Plan are for reference purposes only and shall not affect the meaning or interpretation of the Plan.

#### ARTICLE XIII - EFFECTIVE DATE OF THE PLAN

13.1 Effective Date. The Plan shall be effective immediately upon the date of its approval by the shareholders of the Company (the "Effective Date").

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H&R BLOCK, INC.

1989 STOCK OPTION PLAN FOR OUTSIDE DIRECTORS

(AS AMENDED)

1. PURPOSES. The purposes of this 1989 Stock Option Plan for Outside Directors are to attract and retain experienced and qualified directors who are not employees of the Company or any Subsidiary of the Company, and to secure for the Company and its shareholders the benefits of stock ownership in the Company by those directors.

2. DEFINITIONS.

(a) "Board of Directors" shall mean the board of directors of the Company or any Subsidiary of the Company, as the case may be.

(b) "Common Stock" shall mean the common stock, without par value, of the Company.

(c) "Company" shall mean H&R Block, Inc., a Missouri corporation.

(d) "Director" shall mean a member of the Board of Directors of the Company or a member of the Board of Directors of any Subsidiary of the Company, as the case may be.

(e) "Outside Director" shall mean a member of the Board of Directors of the Company or any Subsidiary of the Company who is not an employee of the Company on the date of grant of the Stock Option. As used herein, "employee of the Company" means any full-time employee of the Company, its subsidiaries and their respective divisions, departments and subsidiaries and the respective divisions, departments and subsidiaries of such subsidiaries who is employed at least thirty-five (35) hours a week; provided, however, it is expressly understood that an employee of the Company does not include independent contractors or other persons not otherwise employed by the Company or any Subsidiary of the Company but who provide legal, accounting, investment banking or other professional services to the Company or any Subsidiary of the Company.

(f) "Plan" shall mean this 1989 Stock Option Plan for Outside Directors, as the same may be amended from time to time.

(g) "Recipient" shall mean an Outside Director of the Company or any Subsidiary of the Company who has been granted a Stock Option under the Plan or any person who succeeds to the rights of such Outside Director under this Plan by reason of the death of such Outside Director.

(h) "Stock Option" shall mean the right to purchase, upon exercise of a Stock Option granted under this Plan, shares of the Common Stock. Such Stock Options are non-statutory stock options and are not intended to be "incentive stock options" as defined in the Internal Revenue Code of 1986, as amended.

(i) "Subsidiary of the Company" shall mean a subsidiary of the Company, its divisions, departments, and subsidiaries and the respective divisions, departments and subsidiaries of such subsidiaries.

3. ADMINISTRATION OF THE PLAN. The Plan may be administered by the Company's Board of Directors or an Option Committee (the "Committee"), as the Board of Directors of the Company may in its sole discretion decide. All Outside Directors shall be ineligible to vote upon any matter concerning the Stock Options including adoption of this Plan. The Committee, if it is established by the Company's Board of Directors to administer the Plan, shall consist of directors of the Company who are not Outside Directors, 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 all members of the Committee, shall be valid acts of the Committee. All references herein to the Committee shall

be deemed to mean any successor to the Committee, however designated, or the Board of Directors of the Company if the Board has not approved 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 Company's 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 Stock Options which may be granted under this Plan. The Committee shall impose such additional conditions upon Stock Options granted under this Plan and the exercise thereof 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 Stock Options to be granted to Outside Directors of the Subsidiaries of the Company and the conditions for payment of Stock Options by Recipients.

The initial Committee shall consist of Henry W. Bloch, Chairman and Chief Executive Officer of the Company, Jerome B. Grossman, Vice Chairman of the Company, and Thomas M. Bloch, President of the Company.

4. ABSOLUTE DISCRETION. The Committee may, in its sole and absolute discretion, from time to time during the continuance of the Plan, (i) determine which Outside Directors of any Subsidiary of the Company shall be granted Stock Options under the Plan, (ii) grant Stock Options to any Outside Directors of any Subsidiary of the Company so selected, (iii) determine the type, date of grant, size and terms of Stock Options to be granted to Outside Directors of any Subsidiary of the Company (subject to Sections 7, 9 and 10 hereof, as the same may be hereafter amended), (iv) determine the terms other than the date of grant, size and stock option price of Stock Options granted pursuant to Section 6 hereof to Outside Directors of the Company, (v) place conditions or restrictions on the receipt of Stock Options by Outside Directors of any Subsidiary of the Company or on the payment or exercise of any Stock Options, and (vi) do all other things necessary and proper to carry out the intentions of this Plan.

5. ELIGIBILITY. Stock Options may be granted to any Outside Director; however, subject to Section 6 hereof, no Outside Director or other person shall have any claim or right to be granted a Stock Option under the Plan. No member of the Committee (other than an ex officio member) shall be eligible for grants of Stock Options under the Plan.

6. PRESCRIBED STOCK OPTIONS FOR OUTSIDE DIRECTORS OF THE COMPANY. During the continuance of the Plan, a Stock Option to purchase an aggregate of 4,000 shares of Common Stock shall be granted on each date of grant specified in this Section 6 to each Outside Director of the Company serving as such on such date of grant. Stock Options specified in this Section 6 shall be granted on September 11, 1991, and on June 30 of each year thereafter in which the Plan is in effect. The stock option price of each share of Common Stock subject to a Stock Option granted pursuant to this Section 6 shall be determined in accordance with Section 9 hereof. Outside Directors of the Company shall not be granted Stock Options pursuant to the Plan other than as specified in this Section 6, provided that no Stock Options granted pursuant to this Plan prior to September 11, 1991, shall be invalidated or otherwise affected by the provisions of this Section 6. This Section 6 shall not apply to Outside Directors of Subsidiaries of the Company who are not also Outside Directors of the Company on the date of grant.

7. STOCK SUBJECT TO THE PLAN. The total number of shares of Common Stock issuable under this Plan may not at any time exceed 800,000 shares, subject to adjustment as provided in Sections 14 and 15 hereof. Shares of Common Stock not actually issued pursuant to Stock Options shall be available for future Stock Options. Shares of Common Stock to be delivered or purchased under the Plan may be either authorized but unissued Common Stock or treasury shares.

8. VESTING REQUIREMENTS. The Committee may determine that all or a portion of a Stock Option shall be vested at such times and upon such terms as may be selected by it. All



Stock Options shall expire as to all of their unexercised shares ten years after the date of their grant.

9. STOCK OPTION PRICE. The purchase price per share of Common Stock under each Stock Option granted hereunder shall be equal to the last reported sale price, regular way, for the Common Stock on the New York Stock Exchange on the date of grant (or, if said date of grant falls on a non-business day, then on the next preceding business date on which the stock is quoted) of such Stock Option.

10. PAYMENT OF STOCK OPTION PRICE. 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. CONTINUATION AS DIRECTOR. The Committee shall require that a Recipient be an Outside Director at the time a Stock Option is granted and may require that a Recipient be an Outside Director at the time a Stock Option is exercised. The Committee may provide for the termination of an outstanding Stock Option if a Recipient ceases to be an Outside Director and may establish such other provisions with respect to the termination or disposition of a Stock Option 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 cessation as a Director and to determine whether such cessation is the result of retirement, death or any other reason.

12. REGISTRATION OF STOCK. No Stock Option may be exercised at any time when its exercise or the delivery of shares of Common Stock or other securities thereunder would, in the opinion of counsel for the Company, be in violation of any state or federal law, rule or ordinance, including any state or federal securities laws or any regulation or ruling of the Securities and Exchange Commission. If at any time counsel for the Company shall determine that qualification or registration under any state or federal law of the shares of Common Stock 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 exercise of such Stock Option or the purchase of shares thereunder, the Stock Option 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 such counsel deems unacceptable.

13. NON-ASSIGNABILITY. No Stock Option granted pursuant to the Plan shall be transferable or assignable by the Recipient other than by will or the laws of descent and distribution or pursuant to a qualified domestic relations order as defined by the Internal Revenue Code of 1986, as amended, or Title I of the Employee Retirement Security Act, or the rules thereunder. During the lifetime of the Recipient a Stock Option granted pursuant to the Plan shall be exercisable only by the Recipient.

14. DILUTION OR OTHER ADJUSTMENTS. In the event of any change 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 of the Company shall make such equitable adjustments with respect to the Stock Options or any provisions of this Plan as it deems necessary or appropriate, including, if necessary, any adjustment in the maximum number of shares of Common Stock subject to an outstanding Stock Option.

15. 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 of the Company shall make such arrangements it deems advisable with respect to outstanding Stock Options, which shall be binding upon the Recipients of outstanding Stock Options, including, but not limited to, the substitution of

new Stock Options for any Stock Options then outstanding, the assumption of such Stock Options and the termination of or payment for such Stock Options.

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16. COSTS AND EXPENSES. The cost and expenses of administering the Plan shall be borne by the Company and not charged to any Stock Option nor to any Recipient.

17. STOCK OPTION AGREEMENTS. The Committee shall have the power to specify the form of Stock Option Agreements to be granted from time to time pursuant to and in accordance with the provisions of the Plan and such agreements 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 agreement in the form thus specified.

18. NO SHAREHOLDER PRIVILEGES. Neither the Recipient nor any person claiming under or through him or her shall be or have any of the rights or privileges of a shareholder of the Company in respect to any of the Common Stock issuable upon the exercise of any Stock Option, unless and until certificates evidencing such shares of Common Stock shall have been duly issued and delivered.

19. 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.

20. 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 (a) no amendment, supplement, modification, suspension or termination of the Plan shall in any manner affect any Stock Option of any kind theretofore granted under the Plan without the consent of the Recipient of the Stock Option, unless such amendment, supplement, modification, suspension or termination is by reason of any change in capital structure referred to in Section 14 hereof or unless the same is by reason of the matters referred to in Section 15 hereof; (b) Sections 6 and 9 herein shall not be amended or modified more than once in any six-month period, other than to comport with changes in the Internal Revenue Code of 1986, as amended, or the rules thereunder and (c) if the Plan is duly approved by the shareholders of the Company, no amendment, modification or supplement to the Plan shall thereafter, 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, (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 14 hereof, (ii) change the termination date of the Plan provided in Section 21 hereof, or (iii) delete or amend the provisions of Section 9 hereof relating to the establishment of the stock option price.

21. TERMINATION. Stock Options may be granted in accordance with the terms of the Plan until December 5, 2004, on which date this Plan will terminate except as to Stock Options then outstanding hereunder, which Stock Options shall remain in effect until they have expired according to their terms.

22. APPROVAL. This Plan shall take effect upon due approval by the Board of Directors of the Company.

## H&amp;R BLOCK, INC.

## 1999 STOCK OPTION PLAN FOR SEASONAL EMPLOYEES

(AS AMENDED SEPTEMBER 12, 2001)

ARTICLE 1. ESTABLISHMENT OF THE PLAN. H&R BLOCK, INC., a Missouri corporation (the "Company"), hereby formulates and adopts the 1999 Stock Option Plan for Seasonal Employees (the "Plan") whereby there may be granted to seasonal employees of H&R Block Services, Inc. (an indirect subsidiary of the Company) and the direct and indirect, majority-owned subsidiaries of H&R Block Services, Inc. (such corporation, such direct and indirect subsidiaries, and their successor entities, if any, to be referred to herein as "Tax Services"), options to purchase shares of the Company's Common Stock, without par value (such shares being hereinafter sometimes referred to for convenience as "Common Stock" or "stock" or "shares").

ARTICLE 2. PURPOSE OF THE PLAN. The purpose of the Plan is to advance and promote the interests of the Company, Tax Services and the Company's stockholders by providing a method whereby seasonal employees of Tax Services may acquire Common Stock under options to purchase the same subject to the conditions hereinafter or therein provided. The Plan is further intended to provide seasonal employees who may be granted such options with additional incentive to continue in the employ of Tax Services on a seasonal basis and to increase their efforts to promote the best interests of the Company, Tax Services and the Company's stockholders.

ARTICLE 3. ADMINISTRATION OF THE PLAN. The Plan shall be administered by the Compensation Committee of the Board of Directors of the Company (the "Committee") consisting of three or more directors of the Company, to be appointed by and to serve at and during the pleasure of the Board of Directors of the Company. All references herein to the Committee shall be deemed to mean the Board of Directors of the Company if the Board has not appointed a Committee. A majority of the Committee 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. 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 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, Tax Services, the stockholders, the Board of Directors and any persons having any interest in any options which may be granted under the Plan. The Committee may impose such additional conditions upon the grant and exercise of options under this Plan as may from time to time be deemed necessary or desirable, in the opinion of counsel of 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.

ARTICLE 4. ELIGIBILITY. Options shall be granted on June 30 of each year the Plan is in effect (the "date of grant") only to "Eligible Seasonal Employees" of Tax Services for

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such year. The term "Eligible Seasonal Employees" for any calendar year during which the Plan is in effect shall include all those employees of Tax Services who (a) are hired to perform for limited periods of time during such year jobs specifically designated by Tax Services to be seasonal jobs and (b) have adhered to the working hours agreed upon during such year.

ARTICLE 5. STOCK SUBJECT TO THE PLAN. The shares of Common Stock to be issued upon exercise of the options granted under the Plan shall be made available, at the discretion of the Board of Directors of the Company, either from authorized but unissued stock of the Company or from shares that have been purchased by the Company from any source whatever, but the aggregate number of shares for which options may be granted under the Plan shall not exceed

20,000,000 shares of Common Stock of the Company. If an option granted under the Plan shall be surrendered or shall for any reason whatsoever expire or terminate in whole or in part without the exercise thereof, then the shares of stock which were subject to any such option shall, if the Plan shall then be in effect, be available for options thereafter granted under the Plan.

ARTICLE 6. METHOD OF PARTICIPATION. Each Eligible Seasonal Employee who either (i) is an employee of Tax Services on April 15 (or the next business day if it falls on a Saturday, Sunday or holiday) of each calendar year the Plan is in effect, or (ii) has been an employee of Tax Services for at least an aggregate of 100 working days during the 12-month period ending with the date of grant, shall be granted an option to purchase one share of Common Stock for each \$100 of the total compensation earned by him or her during and throughout the 12-month period ending with the date of grant (such total compensation during such period to be referred to herein as "Total Compensation"), provided, however, that (a) each Eligible Seasonal Employee who is not entitled to an option grant under the provisions of this Article 6 on June 30, 1999 (regardless of whether or not such Eligible Seasonal Employee was employed on or before such date), but who, with respect to any subsequent date of grant during the term of the Plan, otherwise meets the requirements of this Article 6, shall be granted as of such subsequent date of grant an option to purchase one share of Common Stock for each \$200 of Total Compensation in lieu of an option to purchase one share of Common Stock for each \$100 of Total Compensation, (b) no employee shall be granted an option to purchase in excess of 100 of said shares in any calendar year under the Plan, (c) no employee shall be granted an option if such employee's Total Compensation for the applicable year is less than \$4,000 (\$500 for an option granted on June 30, 1999), and (d) any fractional shares which would otherwise be subject to an option under the Plan shall be adjusted to the nearest whole number of shares. As promptly as possible after June 30 of each year the Plan is in effect (but effective as of such date), each Eligible Seasonal Employee shall be notified in writing of the number of shares optioned to him or her under the Plan, the option price and the terms and conditions of said option, as described in Article 9.

ARTICLE 7. ADJUSTMENT UPON CHANGES IN CAPITALIZATION. In the event a merger, consolidation, reorganization, recapitalization, stock dividend, stock split, or other change in the corporate structure or capitalization affecting the Company's capital stock shall occur, an appropriate adjustment shall be made in (a) the number of shares of stock available for options under the Plan and subject to outstanding options, (b) the purchase price per share for each outstanding option, and (c) the provisions of Article 6, provided that, no adjustment shall be made in the provisions of Article 6 in the event of

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a stock dividend or stock split. Any adjustment to the Plan shall be made by the Board of Directors and, when so made, shall be effective and binding for all purposes of the Plan and of all options then outstanding.

ARTICLE 8. OPTION PRICE. Each year this Plan is in effect, the purchase price per share under each option granted during such year shall be equal to the last reported sale price, regular way, for the Common Stock on the New York Stock Exchange (or, if the stock is not then traded on such exchange, the last reported sale price, regular way, on such other national exchange or NASDAQ or other system on which such stock is traded and reported), in each case on the date of grant (or if said date falls on a non-business day then on the next preceding business date on which the stock is quoted) of such year.

ARTICLE 9. TERMS AND CONDITIONS OF OPTIONS. The terms and conditions of each option granted hereunder shall be set forth in a written notice to the employee to whom such option is granted. Said terms and conditions shall be consistent with the provisions of the Plan and shall include but not be limited to the following:

A. CONTINUATION OF EMPLOYMENT. The grant of an option under this Plan shall not confer on the optionee any right to continue in the employ of Tax Services or to be employed by the Company or any of its subsidiaries, nor shall it limit the right of Tax Services to terminate the employment of any optionee at any time.

B. PERIODS OF EXERCISING OPTION. An option may be exercised only between the dates of September 1 through November 30 of either of the two

calendar years immediately following the calendar year in which said option was granted, and said option shall expire as to all shares subject thereto which are not so exercised.

C. CONDITIONS OF EXERCISING OPTION. If an optionee shall not be an Eligible Seasonal Employee, as defined in Article 4, for a year in which he or she would be otherwise entitled to exercise an option under this Plan ("Exercise Year"), or shall not have earned actual Total Compensation during the 12-month period ending on June 30 of such Exercise Year which is at least equal to 50% of the actual Total Compensation earned by him or her during the 12-month period ending on June 30 of the year in which the option was granted ("Grant Year"), he or she shall not be entitled to exercise his or her option for such Grant Year; provided, however, if the optionee shall become a full-time employee of the Company or any of its subsidiaries (including, but not limited to, Tax Services) prior to August 1 of such Exercise Year he or she shall be entitled to exercise said option for such Grant Year, provided he or she is a full-time employee of the Company or one of its subsidiaries at the time the option is exercised. The option must be exercised by the optionee in writing (unless otherwise authorized by the Company) within the periods above specified with respect to all or part of the shares optioned and accompanied by full payment of the option price thereof. Only one exercise shall be permitted with respect to a single option. If an optionee exercises an option for less than all of the shares subject to such option, the optionee shall lose all rights to exercise the option for the balance of the shares subject to the option. No optionee will be deemed to be a holder of any shares subject to an option unless and until certificates for such shares are issued to him or her under the terms of the Plan. As used herein, "full-time employee" means an individual in the employ of the Company or one of its subsidiaries in a job designated by the applicable employer to be a full-time job.

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D. NON-TRANSFERABILITY OF OPTION; TERMINATION UPON DEATH. The option shall be exercisable only by the optionee and shall not be transferable by him or her. The option shall terminate upon the death of the optionee.

E. QUALIFICATION OF STOCK. Each option shall be subject to the requirement that if at any time the Board of Directors of the Company shall determine, in its discretion, that qualification or registration of the shares of stock thereby covered under any state or federal law, 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 option or the purchase of shares thereunder, the option may not be exercised in whole or in part unless and until such qualification or registration, consent or approval shall have been effected or obtained free of any conditions not acceptable to the Board of Directors of the Company, at its discretion.

ARTICLE 10. 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 no employee's rights existing at the effective time of such amendment, modification, supplement, suspension or termination are adversely affected thereby, and provided further 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 the shareholders of the Company, no such amendment, modification or supplement shall (i) increase the aggregate number of shares of Common Stock that may be issued under the Plan, unless such increase is by reason of any change in the capital structure referred to in Article 7 hereof, (ii) materially modify the requirements as to eligibility for participation in the Plan, or (iii) materially increase the benefits accruing to participants under the Plan.

ARTICLE 11. EFFECTIVE DATE; EXPIRATION OF PLAN. The Plan shall be effective on June 30, 1999 (with the grant of options on that date) and, unless extended, shall terminate on December 31, 2004, but no termination of the Plan, whether under the provisions of this Article 11 or otherwise, shall affect the continuance of any option granted hereunder prior to said date.



THIS EMPLOYMENT AGREEMENT ("Agreement") is entered into as of October 8, 2001, by and between HRB Management, Inc., a Missouri corporation (the "Company"), and Jeffrey Brandmaier ("Executive").

#### ARTICLE ONE

##### EMPLOYMENT

1.01 - Agreement as to Employment. Effective October 8, 2001 (the "Employment Date"), the Company hereby employs Executive to serve in the capacity set forth in Section 1.02 of this Agreement, and Executive hereby accepts such employment by the Company, subject to the terms of this Agreement. The Company reserves the right, in its sole discretion, to change the title of Executive at any time.

##### 1.02 - Duties.

(a) Executive is employed by the Company to serve as the Senior Vice President and Chief Information Officer of H&R Block, Inc., a Missouri corporation ("Block") and the indirect parent corporation of the Company, subject to the authority and direction of the Board of Directors of Block and the Executive Vice President of Block. Subject to the foregoing, Executive will have such authority and responsibility and duties as are normally associated with the position of Senior Vice President and Chief Information Officer. The Company reserves the right to modify, delete, add, or otherwise change Executive's job responsibilities, in its sole discretion, at any time. Executive will perform such other duties as are assigned to Executive from time to time.

(b) So long as Executive is employed under this Agreement, Executive agrees to devote Executive's full business time and efforts exclusively on behalf of the Company and to competently and diligently discharge Executive's duties hereunder. Executive will not be prohibited from engaging in such personal, charitable, or other nonemployment activities that do not interfere with Executive's full-time employment hereunder and that do not violate the other provisions of this Agreement or the H&R Block, Inc. Code of Business Ethics & Conduct, which Executive acknowledges having read and understood. Executive will comply fully with all reasonable policies of the Company as are from time to time in effect and applicable to Executive's position. Executive understands that the business of Block, the Company, and/or any other direct or indirect subsidiary of Block (each such other subsidiary an "Affiliate") may be subject to governmental regulation, some of which may require Executive to submit to background investigation as a condition of Block, the Company, and/or Affiliates' participation in certain activities subject to such regulation. If Executive, Block, the Company, or Affiliates are unable to participate, in whole or in part, in any such activity as the result of any action or inaction on the part of Executive, then this Agreement and Executive's employment hereunder may be terminated by

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the Company without notice.

##### 1.03 - Compensation.

(a) Special Bonus. The Company shall pay to Executive a \$100,000 bonus within 30 days after the Employment Date. If Executive voluntarily terminates his employment with the Company prior to the expiration of one year after the Employment Date, Executive shall reimburse the Company the \$100,000 on or before the 30th day after the effective date of such termination. It is expressly agreed that such bonus compensation is paid in lieu of any relocation benefits, regardless of whether Executive is required to reimburse the Company under this Section 1.03(a).

(b) Base Salary. The Company will pay to Executive a gross salary at an annual rate of \$240,000 ("Base Salary"), payable semimonthly or at any other pay periods as the Company may use for its other executive employees. The Base Salary will be reviewed for adjustment no less often than annually during the term of Executive's employment hereunder and, if adjusted, such

adjusted amount will become the "Base Salary" for purposes of this Agreement.

(c) Short-Term Incentive Compensation. As approved by the Compensation Committee of the Board of Block, Executive shall participate in the H&R Block Short-Term Incentive Plan and the discretionary short-term incentive program. Under such Plan and program, Executive shall have an aggregate target bonus for fiscal year 2002 of \$120,000 and an opportunity to earn 200% of such target bonus. The payment of the actual award under the Plan and program shall be based upon such performance criteria some of which shall be determined by the Compensation Committee of Block and some of which shall be determined by mutual agreement between Executive and the Company. For purposes of Executive's participation in such Plan and program for the fiscal year ending April 30, 2002, Executive's actual incentive compensation shall not be prorated based upon the number of months during such year that Executive is actually employed by the Company, provided, however, that Executive must remain employed through April 30, 2002 to receive any payments under the Plan and program.

In addition, Executive shall be eligible to earn additional incentive compensation in an amount from 0% to 25% of annual base salary based upon the assessment of the Compensation Committee of the Board of Directors of Block and/or the Board of Directors of Block itself of the performance of Block and its subsidiaries during fiscal year 2002 with respect to long-term strategic objectives. Such additional incentive compensation, if any, shall be paid to Executive following the completion of fiscal year 2002 when the same is paid to other senior executives of the Company.

(d) Stock Options. As authorized under the H&R Block 1993 Long-Term Executive Compensation Plan, as amended (the "1993 Plan"), Executive shall be granted on the Employment Date a stock option under the 1993 Plan to purchase 20,000 shares of Block's common stock at an option price per share equal to its closing price on the New York Stock Exchange on the date of grant, such option to expire on the tenth anniversary of the date of grant;

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to vest and become exercisable as to one-third (6,666) of the shares covered thereby on the second anniversary of the date of grant, as to an additional one-third (6,667) of such shares on the third anniversary of the date of grant, and as to the remaining one-third (6,667) of the shares on the fourth anniversary of the date of grant; to be an incentive stock option for the maximum number of shares permitted by Internal Revenue Code Section 422 and the regulations promulgated thereunder; and to otherwise be a nonqualified stock option.

(e) Restricted Stock. As approved by the Compensation Committee of the Board of Block and the Board of Block itself, Executive shall be awarded as of the Employment Date, 1,000 Restricted Shares of Block's common stock under the 1993 Plan. One-third of the 1,000 shares shall vest (i.e., the restrictions on such shares shall terminate), respectively, on each of the first three anniversaries following such employment commencement date (in increments of 333, 333, and 334 whole shares). Prior to the time such Restricted Shares are so vested, (i) such Restricted Shares shall be nontransferable, and (ii) Executive shall be entitled to receive any cash dividends payable with respect to unvested Restricted Shares and vote such unvested Restricted Shares at any meeting of shareholders of Block.

1.04 - No Relocation Benefits. The Company will not reimburse Executive for any packing, shipping, transportation costs and other expenses incurred by Executive in relocating Executive, Executive's family and personal property to the Greater Kansas City Area, notwithstanding any provision to the contrary in the H&R Block Executive Relocation Program. In consideration of the bonus to be paid to Executive pursuant to Section 1.03(a) of this Agreement, Executive agrees that the H&R Block Executive Relocation Program shall not apply to Executive with respect to the relocation of Executive and Executive's family to Kansas City.

1.05 - Business Expenses. The Company will promptly pay directly, or reimburse Executive for, all business expenses, to the extent such expenses are paid or incurred by Executive during the term hereof in accordance with the Company's policy in effect from time to time and to the extent such



expenses are reasonable and necessary to the conduct by Executive of the Company's business.

1.06 - Fringe Benefits. During the term of Executive's employment hereunder, and subject to the discretionary authority given to the applicable benefit plan administrators, the Company will make available to Executive such insurance, sick leave, deferred compensation, short-term incentive compensation, bonuses, stock options, retirement, vacation, and other like benefits as are approved and provided from time to time to the other executive-level employees of the Company or Affiliates.

1.07 - Termination of Employment.

(a) Without Notice. The Company may, at any time, in its sole discretion, terminate this Agreement and the employment of Executive without notice in the event of:

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(i) Executive's misconduct that interferes with or prejudices the proper conduct of the business of Block, the Company or any Affiliate or which may reasonably result in harm to the reputation of Block, the Company and/or any Affiliate; or

(ii) Executive's commission of an act materially and demonstrably detrimental to the good will of Block or any subsidiary of Block, which act constitutes gross negligence or willful misconduct by Executive in the performance of Executive's material duties to Block or such subsidiary; or

(iii) Commission by Executive of any act of dishonesty or breach of trust resulting or intending to result in material personal gain or enrichment of Executive at the expense of Block or any subsidiary of Block; or

(iv) Executive's violation of Article Two or Three of this Agreement; or

(v) Executive's conviction of a misdemeanor (involving an act of moral turpitude) or a felony; or

(vi) Executive's disobedience, insubordination or failure to discharge Executive's duties; or

(vii) Executive's suspension by the Internal Revenue Service from participation in the Electronic Filing Program; or

(viii) The inability of Executive, Block, the Company, and/or an Affiliate to participate, in whole or in part, in any activity subject to governmental regulation as the result of any action or inaction on the part of Executive, as described in Section 1.02(b) of this Agreement; or

(ix) Executive's death or total and permanent disability. The term "total and permanent disability" will have the meaning ascribed thereto under any long-term disability plan maintained by the Company or Block for executives of the Company.

(b) With Notice. Either party may terminate this Agreement for any reason, or no reason, by providing not less than 45 days' prior written notice of such termination to the other party, and, if such notice is properly given, this Agreement and Executive's employment hereunder will terminate as of the close of business on the 45th day after such notice is deemed to have been given or such later date as is specified in such notice.

(c) Termination Due to a Change of Control.

(i) If Executive terminates Executive's employment under this Agreement during the 180-day period following the date of the occurrence of a "Change of Control" of

Block then, upon any such termination of Executive's employment and conditioned on Executive's execution of an agreement with the Company under which Executive releases all known and potential claims against Block, the Company, and Affiliates, the Company will provide Executive with Executive's election (the "Change of Control Election") of the same level of severance compensation and benefits as would be provided under the H&R Block Severance Plan (the "Severance Plan") as the Severance Plan exists either (A) on the date of this Agreement or (B) on Executive's last day of active employment by the Company or any Affiliate (the "Last Day of Employment"), as if Executive had incurred a "Qualifying Termination" (as such term is defined in the Severance Plan) provided, however, (1) Executive will be credited with no less than 15 "Years of Service" (as such term is defined in the Severance Plan) for the purpose of determining severance compensation under Section 4(a)(i) of the Severance Plan as it exists on the date of this Agreement or the comparable section of the Severance Plan as it exists on Executive's Last Day of Employment, notwithstanding any provision in the Severance Plan to the contrary, and (2) all restrictions on any nonvested Restricted Shares awarded to Executive that would have vested in accordance with their terms by reason of lapse of time within 18 months after the effective date of the termination of employment (absent such termination of employment) shall terminate (and such Restricted Shares shall be fully vested) and any Restricted Shares that would not have vested in accordance with their terms by reason of lapse of time within 18 months after the effective date of termination of employment shall be forfeited. The Severance Plan as it exists on the date of this Agreement is attached hereto as Exhibit A. Executive must notify the Company in writing within 5 business days after Executive's Last Day of Employment of Executive's Change of Control Election. Severance compensation and benefits provided under this Section 1.07(c) will terminate immediately if Executive violates Sections 3.02, 3.03, or 3.05 of this Agreement or becomes reemployed with the Company or an Affiliate.

(ii) For the purpose of this subsection, a "Change of Control" means:

(A) the acquisition, other than from Block, by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")), of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 35% or more of the then outstanding voting securities of Block entitled to vote generally in the election of directors, but excluding, for this purpose, any such acquisition by Block or any of its subsidiaries, or any employee benefit plan (or related trust) of Block or its subsidiaries, or any corporation with respect to which, following such acquisition, more than 50% of the then outstanding voting securities of such corporation entitled to vote generally in the election of directors is then beneficially owned, directly or indirectly, by all or substantially all of the individuals and entities who were the beneficial owners of the voting securities of Block immediately prior to such acquisition in substantially the same proportion as their ownership, immediately prior to such acquisition, of the then outstanding voting securities of

Block entitled to vote generally in the election of directors, as the case may be; or

(B) individuals who, as of the date hereof, constitute the Board of Directors of Block (generally, the "Board," and as of the date hereof, the "Incumbent Board") cease for any reason to constitute at least a majority of the Board, provided that any individual or individuals becoming a director subsequent to the date hereof, whose election, or

nomination for election by Block's shareholders, was approved by a vote of at least a majority of the Board (or nominating committee of the Board) will be considered as though such individual were a member or members of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office is in connection with an actual or threatened election contest relating to the election of the directors of Block (as such terms are used in Rule 14a-11 of Regulation 14A promulgated under the Exchange Act); or

(C) the completion of a reorganization, merger, or consolidation approved by the shareholders of Block, in each case, with respect to which all or substantially all of the individuals and entities who were the respective beneficial owners of the voting securities of Block immediately prior to such reorganization, merger or consolidation do not, following such reorganization, merger or consolidation, beneficially own, directly or indirectly, more than 50% of the then outstanding voting securities entitled to vote generally in the election of directors of the corporation resulting from such reorganization, merger or consolidation, or a complete liquidation or dissolution of Block, as approved by the shareholders of Block, or the sale or other disposition of all or substantially all of the assets of Block, as approved by the shareholders of Block.

(d) Severance. Executive will receive severance compensation and benefits as would be provided under the Severance Plan, as the same may be amended from time to time, if Executive incurs a "Qualifying Termination," as such term is defined in the Severance Plan, and executes an agreement with the Company under which Executive releases all known and potential claims against Block, the Company, and Affiliates. Such compensation and benefits will be Executive's election (the "Severance Election") of the same level of severance compensation and benefits as would be provided under the Severance Plan as such plan exists either (A) on the date of this Agreement or (B) Executive's Last Day of Employment; provided, however, (1) if Executive's employment with the Company terminates as a result of the elimination of the position of Senior Vice President and Chief Information Officer, and Executive is not offered another position with the Company, Block, or an Affiliate at a comparable salary and benefit level, Executive will be credited with no less than 15 "Years of Service" (as such term is defined in the Severance Plan) for the purpose of determining severance compensation under Section 4(a)(i) of the Severance Plan as it exists on the date of this Agreement or the comparable section of the Severance Plan as it exists on Executive's Last Day of Employment, notwithstanding any provision in the Severance Plan to the contrary, and (2) all restrictions on any nonvested Restricted Shares

awarded to Executive that would have vested in accordance with their terms by reason of lapse of time within 18 months after the effective date of the termination of employment (absent such termination of employment) shall terminate (and such Restricted Shares shall be fully vested) and any Restricted Shares that would not have vested in accordance with their terms by reason of lapse of time within 18 months after the effective date of termination of employment shall be forfeited. The Severance Plan as it exists on the date of this Agreement is attached hereto as Exhibit A. Executive must notify the Company in writing within 5 business days after Executive's Last Day of Employment of Executive's Severance Election. Severance compensation and benefits provided under this Section 1.07(d) will terminate immediately if Executive violates Sections 3.02, 3.03, or 3.05 of this Agreement or becomes reemployed with the Company or an Affiliate.

(e) Further Obligations. Upon termination of Executive's employment under this Agreement, neither the Company, Block, nor any Affiliate will have any further obligations under this Agreement and no further payments of Base Salary or other compensation or benefits will be payable by the Company, Block, or any Affiliate to Executive, except (i) as set forth in this Section 1.07, (ii) as required by the express terms of any written benefit plans or written arrangements maintained by the Company or Block and applicable to Executive at the time of such termination of Executive's employment, or (iii) as

may be required by law. Any termination of this Agreement, however, will not be effective as to Sections 3.02, 3.03 and 3.05, or any other portions or provisions of this Agreement which, by their express terms, require performance by either party following termination of this Agreement.

## ARTICLE TWO

### CONFIDENTIALITY

2.01 - Background and Relationship of Parties. The parties hereto acknowledge (for all purposes including, without limitation, Articles Two and Three of this Agreement) that Block and its subsidiaries have been and will be engaged in a continuous program of acquisition and development respecting their businesses, present and future, and that, in connection with Executive's employment by the Company, Executive will be expected to have access to all information of value to the Company and Block and that Executive's employment creates a relationship of confidence and trust between Executive and Block with respect to any information applicable to the businesses of Block and its subsidiaries. Executive will possess or have unfettered access to information that has been created, developed, or acquired by Block and its subsidiaries or otherwise become known to Block and its subsidiaries and which has commercial value in the businesses in which Block and its subsidiaries have been and will be engaged and has not been publicly disclosed by Block. All information described above is hereinafter called "Proprietary Information." By way of illustration, but not limitation, Proprietary Information includes trade secrets, customer lists and information, employee lists and information, developments, systems, designs, software, databases, know-how, marketing plans, product information, business and financial information and plans, strategies, forecasts, new products and services, financial statements, budgets, projections, prices, and acquisition and disposition plans. Proprietary Information does not include any portions of such information which are now or hereafter made

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public by third parties in a lawful manner or made public by parties hereto without violation of this Agreement.

### 2.02 - Proprietary Information is Property of Block.

(a) All Proprietary Information is the sole property of Block (or the applicable subsidiary of Block) and its assigns, and Block (or the applicable subsidiary of Block) is the sole owner of all patents, copyrights, trademarks, names, and other rights in connection therewith and without regard to whether Block (or any subsidiary of Block) is at any particular time developing or marketing the same. Executive hereby assigns to Block any rights Executive may have or may acquire in such Proprietary Information. At all times during and after Executive's employment with the Company or any Affiliate, Executive will keep in strictest confidence and trust all Proprietary Information and Executive will not use or disclose any Proprietary Information without the written consent of Block, except as may be necessary in the ordinary course of performing duties as an employee of the Company or as may be required by law or the order of any court or governmental authority.

(b) In the event of any termination of Executive's employment hereunder, Executive will promptly deliver to the Company all copies of all documents, notes, drawings, specifications, documentation, programs, software, computers, data, Proprietary Information, and other materials and property of any nature belonging to Block or any subsidiary of Block and obtained during the course of Executive's employment with the Company. In addition, upon such termination, Executive will not remove from the premises of Block or any subsidiary of Block any of the foregoing or any reproduction of any of the foregoing or any Proprietary Information that is embodied in a tangible medium of expression.

## ARTICLE THREE

### NON-HIRING; NON-SOLICITATION; NO CONFLICTS; NON-COMPETITION

3.01 - General. The parties hereto acknowledge that, during the course of Executive's employment by the Company, Executive will have access

to information valuable to the Company and Block concerning the employees of Block and its subsidiaries ("Block Employees") and, in addition to Executive's access to such information, Executive may, during (and in the course of) Executive's employment by the Company, develop relationships with such Block Employees whereby information valuable to Block and its subsidiaries concerning the Block Employees was acquired by Executive. Such information includes, without limitation: the identity, skills, and performance levels of the Block Employees, as well as compensation and benefits paid by Block to such Block Employees. Executive agrees and understands that it is important to protect Block, the Company, Affiliates and their employees, agents, directors, and clients from the unauthorized use and appropriation of Block Employee information, Proprietary Information, and trade secret business information developed, held, or used by Block, the Company, or Affiliates, and to protect Block, the Company, and Affiliates and their employees, agents, directors, and

customers Executive agrees to the covenants described in this Article III.

3.02 - Non-Hiring. During the period of Executive's employment hereunder and for a period of 1 year after Executive's Last Day of Employment, Executive may not directly or indirectly recruit, solicit, or hire any Block Employee or otherwise induce any such Block Employee to leave the employment of Block (or the applicable employer-subsubsidiary of Block) to become an employee of or otherwise be associated with any other party or with Executive or any company or business with which Executive is or may become associated. The running of the 1-year period will be suspended during any period of violation and/or any period of time required to enforce this covenant by litigation or threat of litigation.

3.03 - Non-Solicitation. During the period of Executive's employment hereunder and during the time Executive is receiving payments hereunder, and for 2 years after the later of Executive's Last Day of Employment or cessation of such payments, Executive may not directly or indirectly solicit or enter into any arrangement with any person or entity which is, at the time of the solicitation, a significant customer of the Company or an Affiliate for the purpose of engaging in any business transaction of the nature performed by the Company or such Affiliate, or contemplated to be performed by the Company or such Affiliate, for such customer, provided that this Section 3.03 will only apply to customers for whom Executive personally provided services while employed by the Company or an Affiliate or customers about whom or which Executive acquired material information while employed by the Company or an Affiliate. The running of the 2-year period will be suspended during any period of violation and/or any period of time required to enforce this covenant by litigation or threat of litigation.

3.04 - No Conflicts. Executive represents in good faith that, to the best of Executive's knowledge, the performance by Executive of all the terms of this Agreement will not breach any agreement to which Executive is or was a party and which requires Executive to keep any information in confidence or in trust. Executive has not brought and will not bring to the Company or Block nor will Executive use in the performance of employment responsibilities at the Company any proprietary materials or documents of a former employer that are not generally available to the public, unless Executive has obtained express written authorization from such former employer for their possession and use. Executive has not and will not breach any obligation of confidentiality that Executive may have to former employers and Executive will fulfill all such obligations during Executive's employment with the Company.

3.05 - Non-Competition. During the period of Executive's employment hereunder and during the time Executive is receiving payments hereunder, and for 2 years after the later of Executive's Last Day of Employment or cessation of such payments, Executive may not engage in, or own or control any interest in (except as a passive investor in less than one percent of the outstanding securities of publicly held companies), or act as an officer, director or employee of, or consultant, advisor or lender to, any firm, corporation, partnership, limited liability company, institution, business, government agency, or entity that engages in any line of business that is competitive with any Line of Business of Block (as defined below), provided that this Section

3.05 will not apply to Executive if Executive's primary place of employment by the Company or an Affiliate as of the Last Day of Employment is in either the State of California or the State of North Dakota. "Line of Business of Block" means any line of business (including lines of business under evaluation or development) of the Company, as well as any one or more lines of business (including lines of business under evaluation or development) of any Affiliate by which Executive was employed during the two-year period preceding the Last Day of Employment, provided that, "Line of Business of Block" will in all events include, but not be limited to, the income tax return preparation business, and provided further that if Executive's employment was, as of the Last Day of Employment or during the 2-year period immediately prior to the Last Day of Employment, with HRB Management, Inc. or any successor entity thereto, "Line of Business of Block" means any line of business (including lines of business under evaluation or development) of Block and all of its subsidiaries. The running of the 2-year period will be suspended during any period of violation and/or any period of time required to enforce this covenant by litigation or threat of litigation.

3.06 - Reasonableness of Restrictions. Executive and the Company acknowledge that the restrictions contained in this Agreement are reasonable, but should any provisions of any Article of this Agreement be determined to be invalid, illegal, or otherwise unenforceable or unreasonable in scope by any court of competent jurisdiction, the validity, legality, and enforceability of the other provisions of this Agreement will not be affected thereby and the provision found invalid, illegal, or otherwise unenforceable or unreasonable will be considered by the Company and Executive to be amended as to scope of protection, time, or geographic area (or any one of them, as the case may be) in whatever manner is considered reasonable by that court and, as so amended, will be enforced.

#### ARTICLE FOUR

##### MISCELLANEOUS

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

4.02 - Entire Agreement. This Agreement constitutes the entire agreement and understanding between the Company and Executive concerning the subject matter hereof. No modification, amendment, termination, or waiver of this Agreement will be binding unless in writing and signed by Executive and a duly authorized officer of the Company. Failure of the Company, Block, or Executive 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.

4.03 - Specific Performance by Executive. The parties hereto acknowledge that money damages alone will not adequately compensate the Company or Block or Executive 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.

4.04 - Successors and Assigns. This Agreement is binding upon Executive and the heirs, executors, assigns and administrators of Executive or Executive's estate and property and will inure to the benefit of the Company, Block and their successors and assigns. Executive may not assign or transfer to others the obligation to perform Executive's duties hereunder. The Company may assign this Agreement to an Affiliate with the consent of Executive, in which case, after such assignment, the "Company" means the Affiliate to which this

Agreement has been assigned.

4.05 - Withholding Taxes. From any payments due hereunder to Executive from the Company, there will be withheld amounts reasonably believed by the Company to be sufficient to satisfy liabilities for federal, state, and local taxes and other charges and customary withholdings. Executive remains primarily liable to such authorities for such taxes and charges to the extent not actually paid by the Company.

4.06 - Indemnification. To the fullest extent permitted by law and Block's Bylaws, the Company hereby indemnifies during and after the period of Executive's employment hereunder Executive from and against all loss, costs, damages, and expenses including, without limitation, legal expenses of counsel selected by the Company to represent the interests of Executive (which expenses the Company will, to the extent so permitted, advance to executive as the same are incurred) arising out of or in connection with the fact that Executive is or was a director, officer, employee, or agent of the Company or Block or serving in such capacity for another corporation at the request of the Company or Block. Notwithstanding the foregoing, the indemnification provided in this Section 4.06 will not apply to any loss, costs, damages, and expenses arising out of or relating in any way to any employment of Executive by any former employer or the termination of any such employment.

4.07 - Right to Offset. To the extent not prohibited by applicable law and in addition to any other remedy, the Company has the right but not the obligation to offset any amount that Executive owes the Company under this Agreement against any amounts due Executive by Block, the Company, or Affiliates.

4.08 - Waiver of Jury Trial. Both parties to this Agreement, and Block, as a third-party beneficiary pursuant to Section 4.01 of this Agreement, waive any and all right to any trial by jury in any action or proceeding directly or indirectly related to this Agreement and Executive's employment hereunder.

4.09 - Notices. All notices required or desired to be given hereunder must be in writing and will be deemed served and delivered if delivered in person or mailed, postage prepaid to Executive at: 4400

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Main Street, Kansas City, Missouri 64111; and to the Company at: 4400 Main Street, Kansas City, Missouri, 64111, Attn: President, with a copy to H&R Block, Inc., 4400 Main Street, Kansas City, Missouri 64111, Attn: Corporate Secretary; or to such other address and/or person designated by either party in writing to the other party. Any notice given by mail will be deemed given as of the date it is so mailed and postmarked or received by a nationally recognized overnight courier for delivery.

4.10 - 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.

EXECUTIVE:

Dated: November 20, 2001 /s/ Jeffrey Brandmaier  
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Jeffrey Brandmaier

Accepted and Agreed:

HRB Management, Inc.  
a Missouri corporation

By: /s/ Mark A. Ernst  
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Mark A. Ernst

Dated: November 20, 2001

H&R BLOCK SEVERANCE PLAN  
(AS AMENDED SEPTEMBER 19, 2001)

1. PURPOSE. The H&R Block Severance Plan is a welfare benefit plan established by HRB Management, Inc., an indirect subsidiary of H&R Block, Inc., for the benefit of certain subsidiaries of H&R Block, Inc. in order to provide severance compensation and benefits to certain employees of such subsidiaries whose employment is involuntarily terminated under the conditions set forth herein. This document constitutes both the plan document and the summary plan description required by the Employee Retirement Income Security Act of 1974.

2. DEFINITIONS.

(a) "Company" means H&R Block, Inc.

(b) "Employee" means a regular full-time or part-time, active employee of a Participating Employer whose employment with a Participating Employer is not subject to an employment contract that contains a provision that includes severance benefits. This definition expressly excludes seasonal, temporary and inactive employees of a Participating Employer and employees who are customarily employed by a Participating Employer less than 20 hours per week.

(c) "ERISA" means the Employee Retirement Income Security Act of 1974, as amended.

(d) "Hour of Service" means each hour for which an individual was entitled to compensation as a regular full-time or part-time employee from a subsidiary of the Company.

(e) "Line of Business of the Company" with respect to a Participant means any line of business of the Participating Employer by which the Participant was employed as of the Termination Date, as well as any one or more lines of business of any other subsidiary of the Company by which the Participant was employed during the two-year period preceding the Termination Date, provided that, if Participant's employment was, as of the Termination Date or during the two-year period immediately prior to the Termination Date, with HRB Management, Inc. or any successor entity thereto, "Line of Business of the Company" shall mean any lines of business of the Company and all of its subsidiaries.

(f) "Participant" means an Employee who has incurred a Qualifying Termination and has signed a Release that has not been revoked during any revocation period provided under the Release.

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(g) "Participating Employer" means a direct or indirect subsidiary of the Company (i) listed on Schedule A, attached hereto, which may change from time to time to reflect new Participating Employers or withdrawing Participating Employers, and (ii) approved by the Plan Sponsor for participation in the Plan.

(h) "Plan" means the "H&R Block Severance Plan," as stated herein, and as may be amended from time to time.

(i) "Plan Administrator" and "Plan Sponsor" means HRB Management, Inc. The address and telephone number of HRB Management, Inc. is 4400 Main Street, Kansas City, Missouri 64111, (816) 753-6900. The Employer Identification Number assigned to HRB Management, Inc. by the Internal Revenue Service is 43-1632589.



(j) "Qualifying Termination" means the involuntary termination of an Employee, but does NOT include a termination resulting from:

- (i) the termination of an Employee as a result of the elimination of the Employee's position where the Employee was offered another position with a subsidiary of the Company at a comparable salary and benefit level, or where the termination results from a sale of assets or other corporate acquisition;
- (ii) the redefinition of an Employee's position to a lower salary rate;
- (iii) the termination of an Employee for cause; or
- (iv) the non-renewal of employment contracts.

(k) "Release" means that agreement signed by and between an Employee who is eligible to participate in the Plan and the Employee's Participating Employer under which the Employee releases all known and potential claims against the Employee's Participating Employer and all of such employer's parents, subsidiaries, and affiliates.

(l) "Release Date" means, with respect to a Release that includes a revocation period, the date immediately following the expiration date of the revocation period in the Release that has been fully executed by both parties. "Release Date" means, with respect to a Release that does not include a revocation period, the date the Release has been fully executed by both parties.

(m) "Severance Period" means the period of time during which a Participant may receive benefits under this Plan. The Severance Period with

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respect to a Participant begins on the Termination Date. A Participant's Severance Period will be the shorter of (i) 12 months or (ii) a number of months equal to the whole number of Years of Service determined under Section 2(p), unless earlier terminated in accordance with Section 8 of the Plan.

(n) "Termination Date" means the date the Employee severs employment with a Participating Employer.

(o) "Monthly Salary" means -

- (i) with respect to an Employee paid on a salary basis, the Employee's current annual salary divided by 12; and
- (ii) with respect to an Employee paid on an hourly basis, the Employee's current hourly rate times the number of hours he or she is regularly scheduled to work per week multiplied by 52 and then divided by 12.

(p) "Year of Service" means each period of 12 consecutive months ending on the Employee's employment anniversary date during which the Employee had at least 1,000 Hours of Service. In determining a Participant's Years of Service, the Participant will be credited with a partial Year of Service for his or her final period of employment commencing on his or her most recent employment anniversary date equal to a fraction calculated in accordance with the following formula:

Number of days since most recent employment anniversary date

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Despite an Employee's Years of Service calculated in accordance with the above, an Employee whose pay grade at his or her Participating Employer fits in the following categories at the time of the Qualifying Termination will be credited with no less than the specified Minimum

Years of Service and no more than the specified Maximum Years of Service listed in the following table as applicable to such pay grade:

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PAY GRADE -----	MINIMUM YEARS OF SERVICE -----	MAXIMUM YEARS OF SERVICE -----
81-89 and 231-235	6	18
65-80, 109-110, and 218-230	3	18
57-64, 105-108, and 210-217	1	18
48-56, 100-102, and 200-209	1	18

Notwithstanding the above, if an Employee has received credit for Years of Service under this Plan or under any previous plan, program, or agreement for the purpose of receiving severance benefits before a Qualifying Termination, such Years of Service will be disregarded when calculating Years of Service for such Qualifying Termination under the Plan; provided, however, that if such severance benefits were terminated prior to completion because the Employee was rehired by any subsidiary of the Company then the Employee will be re-credited with full Years of Service for which severance benefits were not paid in full or in part because of such termination..

3. ELIGIBILITY AND PARTICIPATION. All Employees who incur a Qualifying Termination and sign a Release are eligible to participate in the Plan. An eligible Employee will become a Participant in the Plan as of the Termination Date.

4. SEVERANCE COMPENSATION.

(a) Amount. Subject to Section 8, each Participant will receive during the Severance Period from the applicable Participating Employer aggregate severance compensation equal to:

(i) the Participant's Monthly Salary multiplied by the Participant's Years of Service; plus

(ii) one-twelfth of the Participant's target payout under the Short-Term Incentive Program of the Participating Employer in effect at the time of his or her Termination Date multiplied by the Participant's Years of Service; plus

(iii) an amount to be determined by the Participating Employer at its sole discretion, which amount may be zero.

(b) Timing of Payments. Except as stated in Section 4(c), and subject to Section 8,

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(i) the sum of any amounts determined under Sections 4(a)(i) and 4(a)(ii) of the Plan will be paid in semi-monthly or bi-weekly installments (the timing and amount of each installment as determined by the Participating Employer) during the Severance Period beginning after the later of the Termination Date or the Release Date; and

(ii) any amounts determined under Section 4(a)(iii) of the Plan will be paid in one lump sum within 15 days after the later of the Termination Date or the Release Date, unless otherwise agreed in writing by the Participating Employer and Participant or otherwise required by law.

(c) Death. In the event of the Participant's death prior to receiving all payments due under this Section 4, any unpaid severance compensation will be paid (i) in the same manner as are death benefits under the Participant's basic life insurance coverage provided by the Participant's Participating Employer, and (ii) in accordance with the Participant's beneficiary designation under such coverage. If no such coverage exists, or if no beneficiary designation exists under such coverage as of the date of death of the Participant, the severance compensation will be paid to the Participant's estate in one-lump sum.

5. HEALTH AND WELFARE BENEFITS.

(a) Benefits. In addition to the severance compensation provided pursuant to Section 4 of the Plan, a Participant may continue to participate in the following health and welfare benefits provided by his or her Participating Employer during the Severance Period on the same basis as employees of the Participating Employer:

- (i) medical;
- (ii) dental;
- (iii) vision;
- (iv) employee assistance;
- (v) medical expense reimbursement and dependent care expense reimbursement benefits provided under a cafeteria plan;
- (vi) life insurance (basic and supplemental); and

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- (vii) accidental death and dismemberment insurance (basic and supplemental).

For the purposes of any of the above-described benefits provided under a Participating Employer's cafeteria plan, a Qualifying Termination constitutes a "change in status" or "life event."

(b) Payment and Expiration. Payment of the Participant's portion of contribution or premiums for such selected benefits will be withheld from any severance compensation payments paid to the Participant under this Plan. The Participating Employer's partial subsidization of such coverages will remain in effect until the earlier of:

- (i) the expiration or earlier termination of the Employee's Severance Period, after which time the Participant may be eligible to elect to continue coverage of those benefits listed above that are provided under group health plans in accordance with his or her rights under Section 4980B of the Internal Revenue Code; or
- (ii) the Participant's attainment of or eligibility to attain health and welfare benefits through another employer after which time the Participant may be eligible to elect to continue coverage of those benefits listed above that are provided under group health plans in accordance with his or her rights under Section 4980B of the Internal Revenue Code.

6. STOCK OPTIONS.

(a) Accelerated Vesting. Any portion of any outstanding incentive stock options and nonqualified stock options that would have vested during the 18-month period following the Termination Date had the Participant remained an employee with the Participating Employer during such 18-month period will vest as of the Termination Date. This Section 6(a) applies only to options (i) granted to the Participant under the Company's 1993 Long-Term Executive Compensation Plan, or any successor plan to its 1993 Long-Term Executive Compensation Plan, not less than 6

months prior to his or her Termination Date and (ii) outstanding at the close of business on such Termination Date. The determination of accelerated vesting under this Section 6(a) shall be made as of the Termination Date and shall be based solely on any time-specific vesting schedule included in the applicable stock option agreement without regard to any accelerated vesting provision not related to the Plan in such agreement.

(b) Post-Termination Exercise Period. Subject to the expiration dates and other terms of the applicable stock option agreements, the Participant may

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elect to have the right to exercise any outstanding incentive stock options and nonqualified stock options granted prior to the Termination Date to the Participant under the Company's 1984 Long-Term Executive Compensation Plan, its 1993 Long-Term Executive Compensation Plan, or any successor plan to its 1993 Long-Term Executive Compensation Plan that are vested as of the Termination Date (or, if later, the Release Date), whether due to the operation of Section 6(a), above, or otherwise, at any time during the Severance Period and, except in the event that the Severance Period terminates pursuant to Section 8(a), for a period up to 3 months after the end of the Severance Period (notwithstanding Section 8). Any such election shall apply to all outstanding incentive stock options and nonqualified stock options, will be irrevocable and must be made in writing and delivered to the Plan Administrator on or before the later of the Termination Date or Release Date. If the Participant fails to make an election, the Participant's right to exercise such options will expire 3 months after the Termination Date.

(c) Stock Option Agreement Amendment. The operation of Sections 6(a) and 6(b), above, are subject to the Participant's execution of an amendment to any affected stock option agreements.

7. OUTPLACEMENT SERVICES. In addition to the benefits described above, career transition counseling or outplacement services may be provided upon the Participant's Qualifying Termination. Such outplacement service will be provided at the Participating Employer's sole discretion. Outplacement services are designed to assist employees in their search for new employment and to facilitate a smooth transition between employment with the Participating Employer and employment with another employer. Any outplacement services provided under this Plan will be provided by an outplacement service chosen by the Participating Employer. The Participant is not entitled to any monetary payment in lieu of outplacement services.

8. TERMINATION OF BENEFITS. Any right of a Participant to severance compensation and benefits under the Plan, and all obligations of his or her Participating Employer to pay any unpaid severance compensation or provide benefits under the Plan will terminate as of the day:

(a) The Participant has engaged in any conduct described in Sections 8(a)(i), 8(a)(ii), 8(a)(iii) or 8(a)(iv), below, as the same may be limited pursuant to Section 8(a)(vi).

(i) During the Severance Period, the Participant's engagement in, ownership of, or control of any interest in (except as a passive investor in less than one percent of the outstanding securities of publicly held companies), or acting as an officer, director or employee of, or consultant, advisor or lender to, any firm,

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corporation, partnership, limited liability company, institution, business, government agency, or entity that

engages in any line of business that is competitive with any Line of Business of the Company, provided that this Section 8(a)(i) shall not apply to the Participant if the Participant's primary place of employment by a subsidiary of the Company as of the Termination Date is in either the State of California or the State of North Dakota.

(ii) During the Severance Period, the Participant employs or solicits for employment by any employer other than a subsidiary of the Company any employee of any subsidiary of the Company, or recommends any such employee for employment to any employer (other than a subsidiary of the Company) at which the Participant is or intends to be (A) employed, (B) a member of the Board of Directors, (C) a partner, or (D) providing consulting services.

(iii) During the Severance Period, the Participant directly or indirectly solicits or enters into any arrangement with any person or entity which is, at the time of the solicitation, a significant customer of a subsidiary of the Company for the purpose of engaging in any business transaction of the nature performed by such subsidiary, or contemplated to be performed by such subsidiary, for such customer, provided that this Section 8(a)(iii) shall only apply to customers for whom the Participant personally provided services while employed by a subsidiary of the Company or customers about whom or which the Participant acquired material information while employed by a subsidiary of the Company.

(iv) During the Severance Period, the Participant misappropriates or improperly uses or discloses confidential information of the Company and/or its subsidiaries.

(v) If the Participant engaged in any of the conduct described in Sections 8(a)(i), 8(a)(ii), 8(a)(iii) or 8(a)(iv) during or after Participant's term of employment with a Participating Employer, but prior to the commencement of the Severance Period, and such engagement becomes known to the Participating Employer during the Severance Period, such conduct shall be deemed, for purposes of Sections 8(a)(i), 8(a)(ii), 8(a)(iii) or 8(a)(iv) to have occurred during the Severance Period.

(vi) If the Participant is a party to an employment contract with a Participating Employer that contains a covenant or

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covenants relating to the Participant's engagement in conduct that is the same as or substantially similar to the conduct described in any of Sections 8(a)(i), 8(a)(ii), 8(a)(iii) or 8(a)(iv), and any specific conduct regulated in such covenant or covenants in such employment contract is more limited in scope geographically or otherwise than the corresponding specific conduct described in any of such Sections 8(a)(i), 8(a)(ii), 8(a)(iii) or 8(a)(iv), then the corresponding specific conduct addressed in the applicable Section 8(a)(i), 8(a)(ii), 8(a)(iii) or 8(a)(iv) shall be limited to the same extent as such conduct is limited in the employment contract and the Participating Employer's rights and remedy with respect to such conduct under this Section 8 shall apply only to such conduct as so limited.

(b) The Participant is rehired by his or her Participating Employer or hired by any other subsidiary of the Company in any position other than a position classified as seasonal by such employer.

9. AMENDMENT AND TERMINATION. The Plan Sponsor reserves the right to amend the Plan or to terminate the Plan and all benefits hereunder in their entirety at any time.

10. ADMINISTRATION OF PLAN. The Plan Administrator has the power and discretion to construe the provisions of the Plan and to determine all questions relating to the eligibility of employees of Participating Employers to become Participants in the Plan, and the amount of benefits to which any Participant may be entitled thereunder in accordance with the Plan. Not in limitation, but in amplification of the foregoing and of the authority conferred upon the Plan Administrator, the Plan Sponsor specifically intends that the Plan Administrator have the greatest permissible discretion to construe the terms of the Plan and to determine all questions concerning eligibility, participation and benefits. Any such decision made by the Plan Administrator will be binding on all Employees, Participants, and Beneficiaries, and is intended to be subject to the most deferential standard of judicial review. Such standard of review is not to be affected by any real or alleged conflict of interest on the part of the Plan Administrator. The decision of the Plan Administrator upon all matters within the scope of its authority will be final and binding.

11. CLAIMS PROCEDURES.

(a) FILING A CLAIM FOR BENEFITS. Participants are not required to submit claim forms to initiate payment of benefits under this Plan. To make a claim for benefits, individuals other than Participants who believe they are entitled to receive benefits under this Plan and Participants who believe they have been denied certain benefits under the Plan must write to the Plan

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Administrator. These individuals and such Participants are hereinafter referred to in this Section 11 as "Claimants." Claimants must notify the Plan Administrator if they will be represented by a duly authorized representative with respect to a claim under the Plan.

(b) INITIAL REVIEW OF CLAIMS. The Plan Administrator will evaluate a claim for benefits under the Plan. The Plan Administrator may solicit additional information from the Claimant if necessary to evaluate the claim. If the Plan Administrator denies all or any portion of the claim, the Claimant will receive, within 90 days after the receipt of the written claim, a written notice setting forth:

- (i) the specific reason for the denial;
- (ii) specific references to pertinent Plan provisions on which the Plan Administrator based its denial;
- (iii) a description of any additional material and information needed for the Claimant to perfect his or her claim and an explanation of why the material or information is needed; and
- (iv) that any appeal the Claimant wishes to make of the adverse determination must be in writing to the Plan Administrator within 60 days after receipt of the notice of denial of benefits. The notice must advise the Claimant that his or her failure to appeal the action to the Plan Administrator in writing within the 60-day period will render the Plan Administrator's determination final, binding and conclusive. The notice must further advise the Claimant of his or her right to bring a civil action under Section 502(a) of ERISA following the exhaustion of the claims procedures described herein.

(c) APPEAL OF DENIED CLAIM AND FINAL DECISION. If the Claimant should appeal to the Plan Administrator, the Claimant, or his or her duly authorized representative, must submit, in writing, whatever issues and comments the Claimant or his or her duly authorized representative feels are pertinent. The Claimant, or his or her duly authorized representative, may review and request pertinent Plan documents. The Plan Administrator will reexamine all facts related to the appeal and make a final determination as to whether the denial of benefits is justified under the circumstances. The Plan Administrator

will advise the Claimant in writing of its decision within 60 days of the Claimant's written request for review, unless special circumstances (such as a hearing) require an extension of time, in which case the Plan Administrator will make a decision as soon as possible, but no later than 120 days after its receipt of a request for review.

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12. PLAN FINANCING. The benefits to be provided under the Plan will be paid by the applicable Participating Employer, as incurred, out of the general assets of such Participating Employer.

13. GENERAL INFORMATION. The Plan's records are maintained on a calendar year basis. The Plan Number is 509. The Plan is self-administered and is considered a severance plan.

14. GOVERNING LAW. The Plan is established in the State of Missouri. To the extent federal law does not apply, any questions arising under the Plan will be determined under the laws of the State of Missouri.

15. ENFORCEABILITY; SEVERABILITY. If a court of competent jurisdiction determines that any provision of the Plan is not enforceable, then such provision shall be enforceable to the maximum extent possible under applicable law, as determined by such court. The invalidity or unenforceability of any provision of the Plan, as determined by a court of competent jurisdiction, will not affect the validity or enforceability of any other provision of the Plan and all other provisions will remain in full force and effect.

16. WITHHOLDING OF TAXES. The applicable Participating Employer may withhold from any benefit payable under the Plan all federal, state, city or other taxes as may be required pursuant to any law, governmental regulation or ruling. The Participant shall pay upon demand by the Company or the Participating Employer any taxes required to be withheld or collected by the Company or the Participating Employer upon the exercise by the Participant of a nonqualified stock option granted under the Company's 1984 Long-Term Executive Compensation Plan or its 1993 Long-Term Executive Compensation Plan. If the Participant fails to pay any such taxes associated with such exercise upon demand, the Participating Employer shall have the right, but not the obligation, to offset such taxes against any unpaid severance compensation under this Plan.

17. NOT AN EMPLOYMENT AGREEMENT. Nothing in the Plan gives an Employee any rights (or imposes any obligations) to continued employment by his or her Participating Employer or other subsidiary of the Company, nor does it give such Participating Employer any rights (or impose any obligations) for the continued performance of duties by the Employee for the Participating Employer or any other subsidiary of the Company.

18. NO ASSIGNMENT. The Employee's right to receive payments of severance compensation and benefits under the Plan are not assignable or transferable, whether by pledge, creation of a security interest, or otherwise. In the event of any attempted assignment or transfer contrary to this section, the applicable Participating Employer will have no liability to pay any amount so attempted to be

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assigned or transferred.

19. SERVICE OF PROCESS. The Secretary of the Plan Administrator is designated as agent for service of legal process. Service of legal process may be made upon the Secretary of the Plan Administrator at:

HRB Management, Inc.  
Attn: Secretary  
4400 Main Street  
Kansas City, Missouri 64111

20. STATEMENT OF ERISA RIGHTS. As a participant in the Plan, you are entitled to certain rights and protections under ERISA, which provides that all Plan Participants are entitled to:

(a) examine without charge, at the Plan Administrator's office, all documents governing the Plan and a copy of the latest annual report (Form 5500 Series) filed by the Plan with the U.S. Department of Labor and available at the Public Disclosure Room of the Pension and Welfare Benefit Administration;

(b) obtain, upon written request to the Plan Administrator, copies of documents governing the operation of the Plan, copies of the latest annual report (Form 5500 Series) and an updated summary plan description. The Plan Administrator may make a reasonable charge for the copies; and

(c) receive a summary of the Plan's annual financial report if required to be filed for the year. The Plan Administrator is required by law to furnish each participant with a copy of this summary annual report if an annual report is required to be filed for the year.

In addition to creating rights for Plan Participants, ERISA imposes duties upon the people who are responsible for the operation of the Plan. The people who operate your Plan, called "fiduciaries" of the Plan, have a duty to do so prudently and in the interest of you and other Plan Participants and beneficiaries. No one, including your Participating Employer or any other person, may fire you or otherwise discriminate against you in any way to prevent you from obtaining a welfare benefit or exercising your rights under ERISA.

If your claim for a welfare benefit is denied or ignored, in whole or in part, you have the right to know why this was done, to obtain copies of documents relating to the decision without charge, and to appeal any denial, all within certain time schedules.

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Under ERISA, there are steps you can take to enforce the above rights. For instance, if you request a copy of plan documents or the latest annual report from the Plan and do not receive them within 30 days, you may file suit in a Federal court. In such a case, the court may require the Plan Administrator to provide the materials to you and pay you up to \$110 a day until you receive the materials, unless the materials were not sent because of reasons beyond the control of the Plan Administrator. If you have a claim for benefits that is denied or ignored, in whole or in part, you may file suit in a state or Federal court. If it should happen that you are discriminated against for asserting your rights, you may seek assistance from the U. S. Department of Labor, or you may file suit in a Federal court. The court will decide who should pay court costs and legal fees. If you are successful, the court may order the person you have sued to pay these costs and fees. If you lose, the court may order you to pay these costs and fees, for example, if it finds your claim is frivolous.

If you have any questions about the Plan, you should contact the Plan Administrator. If you have questions about this statement or about your rights under ERISA, or if you need assistance in obtaining documents from the Plan Administrator, you should contact the nearest office of the Pension and Welfare Benefits Administration, U.S. Department of Labor, listed in your telephone directory or the Division of Technical Assistance and Inquiries, Pension and Welfare Benefits Administration, U.S. Department of Labor, 200 Constitution Avenue N.W., Washington, D.C. 20210. You may also obtain certain publications about your rights and responsibilities under ERISA by calling the publications hotline of the Pension and Welfare Benefits Administration.

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IN WITNESS WHEREOF, HRB Management, Inc. adopts this Severance Plan effective this 23rd day of April, 2001.



HRB MANAGEMENT, INC.

/s/ Mark A. Ernst

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Mark A. Ernst  
President and Chief Executive Officer

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SCHEDULE A

PARTICIPATING EMPLOYERS

Block Financial Corporation

Financial Marketing Services, Inc.

Franchise Partner, Inc.

H&R Block Investments, Inc.

H&R Block Services, Inc. and its U.S.-based direct and indirect subsidiaries

HRB Business Services, Inc.

HRB Management, Inc.

HRB Retail Services, Inc.

Olde Financial Corporation and its U.S.-based direct and indirect subsidiaries,  
which subsidiaries include H&R Block Financial Advisors, Inc.

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