

SECURITIES AND EXCHANGE COMMISSION
 WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED JANUARY 31, 2000
- 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

The number of shares outstanding of the registrant's Common Stock, without par value, at March 1, 2000 was 98,382,049 shares.

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

	JANUARY 31, 2000 ----	APRIL 30, 1999 ----
ASSETS	(UNAUDITED)	(AUDITED)
CURRENT ASSETS		
Cash and cash equivalents	\$ 248,490	\$ 193,240
Marketable securities	33,074	56,881
Receivables from customers, brokers, dealers and clearing organizations, less allowance for doubtful accounts of \$744	2,385,785	-
Receivables, less allowance for doubtful accounts of \$37,474 and \$61,872	1,248,065	743,301
Prepaid expenses and other current assets	163,121	94,000
	-----	-----
TOTAL CURRENT ASSETS	4,078,535	1,087,422
INVESTMENTS AND OTHER ASSETS		
Investments in marketable securities	294,792	170,528
Excess of cost over fair value of net tangible assets acquired, net of accumulated amortization	1,149,546	405,534
Other	178,903	132,470
	-----	-----
	1,623,241	708,532
PROPERTY AND EQUIPMENT, at cost less accumulated depreciation and amortization		
	219,594	114,222
	-----	-----
	\$ 5,921,370	\$ 1,910,176
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Notes payable	\$ 2,094,939	\$ 71,939
Accounts payable to customers, brokers and dealers	2,106,142	-
Accounts payable, accrued expenses and deposits	182,842	168,641
Accrued salaries, wages and payroll taxes	80,558	161,590
Accrued taxes on earnings	6,784	151,659
Current portion of long-term debt	60,207	-
	-----	-----
TOTAL CURRENT LIABILITIES	4,531,472	553,829
LONG-TERM DEBT		
	356,283	249,725
OTHER NONCURRENT LIABILITIES		
	108,342	44,635
STOCKHOLDERS' EQUITY		
Common stock, no par, stated value \$.01 per share	1,089	1,089
Additional paid-in capital	417,311	420,658
Retained earnings	963,212	1,130,909
Accumulated other comprehensive income (loss)	(17,229)	(23,400)
	-----	-----
	1,364,383	1,529,256
Less cost of 10,600,900 and 11,343,608 shares of common stock in treasury	439,110	467,269
	-----	-----
	925,273	1,061,987
	-----	-----
	\$ 5,921,370	\$ 1,910,176
	=====	=====

See Notes to Consolidated Financial Statements

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

	THREE MONTHS ENDED	
	JANUARY 31,	
	2000	1999
	-----	-----
REVENUES		
Service revenues	\$ 406,564	\$ 213,156
Product revenues	81,941	60,110
Royalties	16,124	12,961
Other	7,878	5,255
	-----	-----
	512,507	291,482
	-----	-----
OPERATING EXPENSES		
Employee compensation and benefits	230,943	124,718
Occupancy and equipment	63,842	42,950
Interest	48,826	23,689
Depreciation and amortization	36,539	18,105
Marketing and advertising	39,221	17,824
Supplies, freight and postage	26,755	22,616
Other	80,085	49,930
	-----	-----
	526,211	299,832
	-----	-----
Operating loss	(13,704)	(8,350)
OTHER INCOME		
Investment income, net	72	4,641
Other, net	109	(879)
	-----	-----
	181	3,762
Loss from continuing operations before income tax benefit	(13,523)	(4,588)
Income tax benefit	(6,448)	(1,743)
	-----	-----
Net loss from continuing operations	(7,075)	(2,845)
Net loss from discontinued operations (less applicable income tax benefit of (\$175))	-	(273)
Net loss on sale of discontinued operations (less applicable income tax benefit of (\$12,773))	-	(19,978)
	-----	-----
Net loss	\$ (7,075)	\$ (23,096)
	=====	=====
Weighted average number of common shares outstanding	98,358	97,481
	=====	=====
Basic and diluted net loss per share from continuing operations	\$ (.07)	\$ (.03)
	=====	=====
Basic and diluted net loss per share	\$ (.07)	\$ (.24)
	=====	=====
Dividends per share	\$.275	\$.25
	=====	=====

See Notes to Consolidated Financial Statements

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

	NINE MONTHS ENDED	

	JANUARY 31,	

	2000	1999
	----	----
REVENUES		
Service revenues	\$ 632,766	\$ 308,466
Product revenues	176,182	111,906
Royalties	20,264	17,023
Other	14,801	10,273
	-----	-----
	844,013	447,668
	-----	-----
OPERATING EXPENSES		
Employee compensation and benefits	424,601	216,711
Occupancy and equipment	152,036	108,229
Interest	83,644	53,889
Depreciation and amortization	79,270	44,800
Marketing and advertising	59,076	30,088
Supplies, freight and postage	39,646	31,230
Other	156,701	87,631
	-----	-----
	994,974	572,578
	-----	-----
Operating loss	(150,961)	(124,910)
OTHER INCOME		
Investment income, net	5,125	28,177
Other, net	359	(879)
	-----	-----
	5,484	27,298
Loss from continuing operations before income tax benefit	(145,477)	(97,612)
Income tax benefit	(56,591)	(37,072)
	-----	-----
Net loss from continuing operations	(88,886)	(60,540)
Net loss from discontinued operations (less applicable income tax benefit of (\$953))	-	(1,490)
Net loss on sale of discontinued operations (less applicable income tax benefit of (\$12,773))	-	(19,978)
	-----	-----
Net loss	\$ (88,886)	\$ (82,008)
	=====	=====
Weighted average number of common shares outstanding	97,962	100,526
	=====	=====
Basic and diluted net loss per share from continuing operations	\$ (.91)	\$ (.60)
	=====	=====
Basic and diluted net loss per share	\$ (.91)	\$ (.82)
	=====	=====
Dividends per share	\$.80	\$.70
	=====	=====

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF CASH FLOWS
UNAUDITED, AMOUNTS IN THOUSANDS

	NINE MONTHS ENDED	
	----- JANUARY 31, -----	
	2000	1999
	----	----
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (88,886)	\$ (82,008)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	79,270	44,800
Accretion of acquisition liabilities	7,266	-
Net loss on sale of discontinued operations	-	19,978
Other noncurrent liabilities	5,279	3,613
Changes in:		
Receivables from customers, brokers, dealers and clearing organizations	(423,288)	-
Receivables	(493,884)	(217,181)
Prepaid expenses and other current assets	(54,171)	(45,195)
Accounts payable to customers, brokers and dealers	403,954	-
Accounts payable, accrued expenses and deposits	(56,815)	14,341
Accrued salaries, wages and payroll taxes	(81,032)	(42,816)
Accrued taxes on earnings	(144,933)	(386,235)
NET CASH USED IN OPERATING ACTIVITIES	----- (847,240)	----- (690,703)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of marketable securities	(5,009)	(227,381)
Maturities of marketable securities	33,003	709,106
Purchases of property and equipment	(68,855)	(49,301)
Payments made for business acquisitions, net of cash acquired	(986,556)	(90,618)
Other, net	(18,094)	(23,738)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	----- (1,045,511)	----- 318,068
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayments of notes payable	(31,187,422)	(7,301,430)
Proceeds from issuance of notes payable	33,210,422	7,459,389
Dividends paid	(78,811)	(70,700)
Payments to acquire treasury shares	(32,366)	(490,868)
Proceeds from stock options exercised	36,178	63,728
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	----- 1,948,001	----- (339,881)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	55,250	(712,516)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	193,240	900,856
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	=====	=====
	\$ 248,490	\$ 188,340
SUPPLEMENTAL CASH FLOW DISCLOSURES:		
Income taxes paid	\$ 87,168	\$ 360,959
Interest paid	79,672	59,392

See Notes to Consolidated Financial Statements

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H&R BLOCK, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Unaudited, dollars in thousands, except share data

- The Consolidated Balance Sheet as of January 31, 2000, the Consolidated Statements of Operations for the three and nine months ended January 31, 2000 and 1999, and the Consolidated Statements of Cash Flows for the nine months ended January 31, 2000 and 1999 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 January 31, 2000 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, 1999 Annual Report to Shareholders.

Operating revenues are seasonal in nature with peak revenues occurring in the months of January through April. Thus, the nine-month results are not indicative of results to be expected for the year.

2. On December 1, 1999, the Company, through a subsidiary, Block Financial Corporation, completed the purchase of all of the issued and outstanding shares of capital stock of Olde Financial Corporation and Financial Marketing Services, Inc. (collectively, Olde) for \$850,000 in cash plus an estimated tangible book value payment of \$37,100. An additional cash payment of \$11,372 was made in the fourth quarter based on the aggregate consolidated net book value at the acquisition date, after a final independent audit of the balance sheet. The purchase agreement also provides for possible future consideration payable for up to five years after the acquisition based upon revenues generated from certain online brokerage services. Olde Discount Corporation, a wholly owned subsidiary of Olde Financial Corporation, based in Detroit, Michigan, offers brokerage and other financial services through its network of approximately 1,200 registered representatives located in 181 branch offices in 35 states. The transaction was accounted for as a purchase and, accordingly, Olde's results are included since the date of acquisition. The excess of cost over fair value of net tangible assets acquired at January 31, 2000 was \$491,179, and will be adjusted for the additional payment made in the fourth quarter. Such is being amortized on a straight-line basis over 15 years, subject to completion of an asset valuation as of the purchase date. The acquisition was financed with short-term borrowings, and it is the intention of the Company that a portion of the acquisition will ultimately be financed with the issuance of approximately \$500,000 in term debt in the fourth quarter of fiscal 2000.

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The following unaudited pro forma summary combines the consolidated results of operations of the Company and Olde as if the acquisition had occurred on May 1, 1999 and 1998, after giving effect to certain adjustments, including amortization of intangible assets, increased interest expense on the acquisition debt and the related income tax effects. The pro forma information is presented for informational purposes only and is not necessarily indicative of what would have occurred if the acquisition had been made as of those dates. In addition, the pro forma information is not intended to be a projection of future results.

	Nine months ended	
	January 31,	
	2000	1999
	----	----
Revenues	\$ 1,158,919	\$ 703,152
Net loss	(102,969)	(84,794)
Basic and diluted net loss per share	\$ (1.05)	\$ (.84)

3. On August 2, 1999, the Company, through a subsidiary, RSM McGladrey, Inc. (RSM), completed the purchase of substantially all of the non-attest assets of McGladrey & Pullen, LLP (McGladrey). McGladrey was the nation's seventh largest accounting and consulting firm with more than 70 offices located primarily in the Eastern, Midwestern, Northern and Southwestern United States. The purchase price was \$240,000 in cash payments over the next four years and the assumption of certain pension liabilities with a present value of \$52,728. The purchase agreement also provides for possible future contingent consideration based on a calculation of earnings in year two, three and four after the acquisition and will be treated as purchase price when paid. In addition, the Company made cash payments of \$65,453 for outstanding accounts receivable and work-in-process that have been repaid to the Company as RSM collected these amounts in the ordinary course of

business. The acquisition was accounted for as a purchase, and accordingly, RSM's results are included since the date of acquisition. The present value of the additional cash payments due over the next four years of \$148,803 was treated as a noncash investing activity in the Consolidated Statement of Cash Flows for the nine months ended January 31, 2000. The excess of cost over the fair value of net tangible assets acquired was \$240,535 and is being amortized on a straight-line basis over periods of up to 25 years.

4. Receivables consist of the following:

	January 31, ----- 2000 ----	April 30, ----- 1999 ----
	(Unaudited)	(Audited)
Mortgage loans held for sale	\$ 621,578	\$ 636,687
Participation in refund anticipation loans	356,659	51,074
Business services accounts receivable and work-in-process	122,397	33,015
Other	184,905	84,397
	-----	-----
	1,285,539	805,173
Allowance for doubtful accounts	37,474	61,872
	-----	-----
	\$ 1,248,065	\$ 743,301
	=====	=====

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5. 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.
6. Basic and diluted net loss per share is computed using the weighted average number of shares outstanding during each period. Diluted net loss per share excludes the impact of common stock options outstanding of 8,464,234 shares and the conversion of 608 shares of preferred stock to common stock, as they are antidilutive. The weighted average shares outstanding for the nine months ended decreased to 97,962,000 from 100,526,000 last year, due to the purchase of treasury shares by the Company during fiscal 1999 and 2000. This decrease was partially offset by stock option exercises and the issuance of stock for acquisitions.
7. During the nine months ended January 31, 2000 and 1999, the Company issued 953,865 and 1,996,012 shares, respectively, pursuant to provisions for exercise of stock options under its stock option plans. In addition, the Company issued 475,443 shares of its common stock for an acquisition in the second quarter of fiscal 2000. The issuance of common stock for the acquisition was treated as a noncash investing activity in the Consolidated Statement of Cash Flows for the nine months ended January 31, 2000. During the nine months ended January 31, 2000, the Company acquired 721,800 shares of its common stock at an aggregate cost of \$32,366. During the nine months ended January 31, 1999, the Company acquired 11,792,500 shares of its common stock at an aggregate cost of \$490,868.
8. CompuServe Corporation (CompuServe), certain current and former officers and directors of CompuServe and the registrant are named defendants in six lawsuits pending before the state and Federal courts in Columbus, Ohio since 1996. All suits allege similar violations of the Securities Act of 1933 based on assertions of omissions and misstatements of fact in connection with CompuServe's public filings related to its initial public offering in April 1996. One state lawsuit also alleges certain oral omissions and misstatements in connection with such offering. Relief sought in the lawsuits is unspecified, but includes pleas for rescission and damages. One Federal lawsuit names the lead underwriters of CompuServe's initial public offering as additional defendants and as representatives of a defendant class consisting of all underwriters who participated in such offering. The Federal suits were consolidated, the defendants filed a motion to dismiss the consolidated suits, the district court stayed all proceedings pending the outcome of the state court suits, and the United States Court of Appeals for the Sixth Circuit affirmed such stay. The four state court lawsuits allege violations of various state statutes and common law of negligent misrepresentation in addition to the 1933 Act claims. The

state lawsuits were consolidated for discovery purposes and defendants filed a motion for summary judgment covering all four state lawsuits. As a part of the sale of its interest in CompuServe, the Company agreed to indemnify WorldCom, Inc. and CompuServe against 80.1% of any losses and expenses incurred by them with respect to these lawsuits. The defendants are vigorously defending these lawsuits. In the opinion of management, the ultimate resolution of these suits will not have a material adverse impact on the Company's consolidated financial position or results of operations.

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

	January 31, ----- 2000 ----	April 30, ----- 1999 ----
	(Unaudited)	(Audited)
Condensed balance sheets:		
Cash and cash equivalents	\$ 147,465	\$ 16,026
Finance receivables, net	3,373,268	658,882
Other assets	1,233,689	448,010
Total assets	\$ 4,754,422	\$ 1,122,918
Notes payable	\$ 2,090,802	\$ 71,939
Long-term debt	249,763	249,725
Other liabilities	2,211,510	636,330
Stockholder's equity	202,347	164,924
Total liabilities and stockholder's equity	\$ 4,754,422	\$ 1,122,918

	Three months ended ----- January 31, -----		Nine months ended ----- January 31, -----	
	2000 ----	1999 ----	2000 ----	1999 ----
Condensed statements of operations:				
Revenues	\$ 220,892	\$ 110,472	\$ 394,716	\$ 217,699
Earnings from continuing operations	26,336	19,904	51,626	35,357
Net earnings (loss)	19,710	(8,026)	34,846	233

10. As part of its interest rate risk management strategy, the Company may choose to hedge its interest rate risk related to its fixed rate mortgage or debt portfolios. The effectiveness of a hedge is measured by a historical and probable future high correlation of changes in the fair value of the hedging instruments with changes in the value of the hedged item. If correlation ceases to exist, hedge accounting is terminated and the gains or losses are recorded in revenues.

The Company sells short FNMA mortgage-backed securities to certain broker-dealer counterparties. The position on certain or all of the fixed rate mortgages is closed, on standard Public Securities Association (PSA) settlement dates, when the Company enters into a forward commitment to sell those mortgages or decides to securitize the mortgages. Deferred gains on the FNMA securities hedging instrument amounted to \$227 at January 31, 2000. There were no open FNMA hedging instruments at January 31, 2000. The contract value and market value of the forward commitment at January 31, 2000 were \$130,000 and \$130,171, respectively. In addition, the Company has hedged its interest rate risk related to the anticipated issuance of term debt in the fourth quarter of fiscal 2000 by utilizing treasury rate guarantees. The position on the treasury rate guarantees is closed on the anticipated bond issuance date. The contract value and the market value of these treasury rate guarantees as of January 31, 2000 were \$300,000 and \$297,873. These treasury rate guarantees expire on March 31, 2000.

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11. The Company's comprehensive income is comprised of net loss, foreign currency translation adjustments and the change in the net unrealized gain or loss on marketable securities. The adoption of SFAS 130 had no effect on the Company's consolidated financial statements. The components of comprehensive income (loss) during the three and nine months ended January 31, 2000 and 1999 were:

	Three months ended		Nine months ended	
	January 31,		January 31,	
	2000	1999	2000	1999
Net loss	\$ (7,075)	\$ (23,096)	\$ (88,886)	\$ (82,008)
Change in net unrealized gain (loss) on mkt. securities	(3,390)	2,113	1,867	3,945
Change in foreign currency translation adjustments	2,474	2,458	4,304	(6,447)
Comprehensive income (loss)	\$ (7,991)	\$ (18,525)	\$ (82,715)	\$ (84,510)

12. In June 1999, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 137, "Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of FASB Statement No. 133" (SFAS 137). SFAS 137 delays the effective date of SFAS 133, "Accounting for Derivative Instruments and Hedging Activities," which will now be effective for the Company's fiscal year ending April 30, 2002.
13. In the second quarter of fiscal year 2000, management redefined its Mortgage operations segment to reflect the change in how the business is analyzed and evaluated. The redefined segment, Financial services, includes all of the previous mortgage activity along with the startup of the Company's new financial services operations and the acquisition of Olde. Financial services is primarily engaged in the origination, purchase, servicing, securitization and sale of nonconforming and conforming mortgage loans, as well as offering full-service investment opportunities to the general public. Mortgage origination services are offered through a network of mortgage brokers, through H&R Block Financial Centers and through H&R Block Mortgage Corporation retail offices. Financial planning and investment advice are offered through H&R Block Financial Centers and tax offices, and stock, bonds, mutual funds and other products and securities are offered through a nationwide network of registered representatives, including representatives located at H&R Block Financial Centers and tax offices.

Information concerning the Company's operations by reportable operating segments for the three and nine months ended January 31, 2000 and 1999 is as follows:

	Three months ended		Nine months ended	
	January 31,		January 31,	
	2000	1999	2000	1999
Revenues:				
U.S. tax operations	\$ 237,851	\$ 189,083	\$ 270,649	\$ 219,662
International tax operations	8,478	6,776	27,259	22,030
Financial services	182,419	79,350	353,376	185,005

Business services	82,806	15,341	190,165	18,205
Unallocated corporate	953	932	2,564	2,766
	<u>\$ 512,507</u>	<u>\$ 291,482</u>	<u>\$ 844,013</u>	<u>\$ 447,668</u>

Earnings (loss) from continuing operations:				
U.S. tax operations	\$ (29,427)	\$ (18,845)	\$ (184,160)	\$ (137,977)
International tax operations	(7,134)	(7,508)	(15,299)	(15,742)
Financial services	43,976	24,189	83,733	48,043
Business services	2,156	(1)	(169)	(220)
Unallocated corporate	(5,226)	(3,231)	(12,003)	(8,989)
Interest exp - acquisition debt	(18,472)	(4,438)	(29,952)	(13,319)
	<u>(14,127)</u>	<u>(9,834)</u>	<u>(157,850)</u>	<u>(128,204)</u>
Investment income, net	72	4,641	5,125	28,177
Intercompany interest	532	605	7,248	2,415
	<u>704</u>	<u>5,246</u>	<u>12,373</u>	<u>30,592</u>
Loss from continuing operations before income tax benefit	<u>\$ (13,523)</u>	<u>\$ (4,588)</u>	<u>\$ (145,477)</u>	<u>\$ (97,612)</u>

		January 31,	April 30,
		2000	1999
IDENTIFIABLE ASSETS:			
U.S. tax operations		\$ 771,895	\$ 268,650
International tax operations		56,937	55,684
Financial services		4,313,269	1,038,909
Business services		508,610	146,252
Unallocated corporate		270,659	400,681
		<u>\$ 5,921,370</u>	<u>\$ 1,910,176</u>

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

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 THE ENTRY BY THE COMPANY INTO ANY AGREEMENT REGARDING ANY SALE, JOINT VENTURE, OR OTHER STRATEGIC ACTION INVOLVING OPTION ONE MORTGAGE CORPORATION (OPTION ONE); THE UNCERTAINTY REGARDING THE COMPLETION OF ANY TRANSACTION INVOLVING OPTION ONE; THE UNCERTAINTY OF LAWS, LEGISLATION, REGULATIONS, SUPERVISION AND LICENSING BY FEDERAL, STATE AND LOCAL AUTHORITIES AND THEIR IMPACT ON ANY PROPOSED OR POSSIBLE TRANSACTION AND THE LINES OF BUSINESS IN WHICH THE COMPANY'S SUBSIDIARIES ARE INVOLVED; THE UNCERTAINTY THAT INCREASES IN THE NUMBER OF CLIENTS SERVED BY THE U.S. TAX OPERATIONS SEGMENT WILL CONTINUE AT THE RATES STATED FOR A PORTION OF THE U.S. TAX-FILING SEASON; UNFORESEEN COMPLIANCE COSTS; CHANGES IN ECONOMIC, POLITICAL OR REGULATORY ENVIRONMENTS; CHANGES IN COMPETITION AND THE EFFECTS OF SUCH CHANGES; THE INABILITY TO IMPLEMENT THE COMPANY'S STRATEGIES; CHANGES IN MANAGEMENT AND MANAGEMENT STRATEGIES; THE COMPANY'S INABILITY TO SUCCESSFULLY DESIGN, CREATE, MODIFY AND OPERATE ITS COMPUTER SYSTEMS AND NETWORKS; LITIGATION INVOLVING THE COMPANY; AND RISKS DESCRIBED FROM TIME TO TIME IN REPORTS AND REGISTRATION STATEMENTS FILED BY THE COMPANY AND ITS SUBSIDIARIES WITH THE SECURITIES AND EXCHANGE COMMISSION. READERS SHOULD TAKE THESE FACTORS INTO ACCOUNT IN EVALUATING ANY SUCH FORWARD-LOOKING STATEMENTS. THE COMPANY UNDERTAKES NO OBLIGATION TO UPDATE PUBLICLY OR REVISE ANY FORWARD-LOOKING STATEMENTS, WHETHER AS A RESULT OF NEW INFORMATION, FUTURE EVENTS OR OTHERWISE.

FINANCIAL CONDITION

These comments should be read in conjunction with the Consolidated Balance Sheets and Consolidated Statements of Cash Flows found on pages 1 and 4, respectively.

Working capital decreased to a negative \$452.9 million at January 31, 2000 from \$533.6 million at April 30, 1999. The working capital ratio at January 31, 2000 is 0.90 to 1, compared to 1.96 to 1 at April 30, 1999. The decrease in working capital and the working capital ratio is due to the following: (1) purchase of Olde Financial Corporation (Olde) with short-term borrowings; (2) the increase in short-term borrowings to fund mortgage loan receivables which were funded with corporate cash at April 30, 1999 and; (3) the seasonal nature of the Company's U.S. tax

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operations segment. Tax return preparation occurs almost entirely in the fourth quarter and has the effect of increasing certain assets and liabilities during this time.

The Company maintains a seasonal line of credit to support short-term borrowing facilities in Canada. The credit limit of this line fluctuates according to the amount of short-term borrowings outstanding during the year.

The Company incurs short-term borrowings throughout the year to fund receivables associated with its mortgage loan and other financial services programs. These short-term borrowings in the U.S. are supported by a \$1.89 billion back-up credit facility through November 2000, subject to renewal. An additional credit facility of \$750 million was added in November 1999, which extends through April 2000, to support commercial paper that was issued to finance the acquisition of Olde. It's the Company's intention to ultimately finance a portion of the acquisition price with the issuance of approximately \$500 million in term debt in the fourth quarter of fiscal 2000.

The Company's capital expenditures, treasury share purchases and dividend payments during the first nine months were funded primarily through internally-generated funds and, to a lesser extent, short-term borrowings.

At January 31, 2000, short-term borrowings used to fund mortgage loans and other programs increased to \$2.1 billion from \$71.9 million at April 30, 1999 due mainly to the funding of the acquisition of Olde and mortgage loan receivables which were previously funded with corporate cash. For the nine months ended January 31, 2000 and 1999, interest expense was \$83.6 million and \$53.9 million, respectively. The increase in interest expense is primarily attributable to interest expense related to the purchase of Olde and the non-attest assets of McGladrey & Pullen, LLP.

In July 1996, the Company announced its intention to repurchase up to 10 million shares in the open market over a two-year period following the separation of CompuServe Corporation. At January 31, 2000, 7.7 million shares had been repurchased. The two-year period expired January 31, 2000.

RESULTS OF OPERATIONS

SIGNIFICANT EVENTS

On July 21, 1999, the Company announced it was evaluating strategic alternatives for Option One, including a possible sale or joint venture with a business partner. There are no assurances that any transaction will take place. Option One is reported in the Financial services segment.

On August 2, 1999, the Company, through a subsidiary, RSM McGladrey, Inc. (RSM), completed the purchase of substantially all of the non-attest assets of McGladrey & Pullen, LLP (McGladrey). McGladrey was the nation's seventh largest accounting and consulting firm with more than 70 offices located primarily in the Eastern, Midwestern, Northern and Southwestern United States. The purchase price was \$240.0 million in cash payments over the next four years and the assumption of certain pension liabilities with a present value of \$52.7 million. In addition, the Company made cash payments of \$65.5 million for outstanding

accounts receivable

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and work-in-process balances that have been repaid to the Company as RSM collected these amounts in the ordinary course of business. The acquisition was accounted for as a purchase, and accordingly, RSM's results are included since the date of acquisition.

On December 1, 1999, the Company, through a subsidiary, Block Financial Corporation, completed the purchase of all of the issued and outstanding shares of capital stock of Olde for \$850.0 million in cash plus an estimated tangible book value payment of \$37.1 million. An additional cash payment of \$11.4 million was made in the fourth quarter based on the aggregate consolidated net book value at the acquisition date, after a final independent audit of the balance sheet. Olde Discount Corporation, a wholly owned subsidiary of Olde Financial Corporation, based in Detroit, Michigan, offers brokerage and other financial services through its network of approximately 1,200 registered representatives located in 181 branch offices in 35 states. The transaction was accounted for as a purchase and, accordingly, Olde's results are included since the date of acquisition.

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FISCAL 2000 COMPARED TO FISCAL 1999

The analysis that follows should be read in conjunction with the table below and the Consolidated Statements of Operations found on pages 2 and 3.

THREE MONTHS ENDED JANUARY 31, 2000 COMPARED TO
THREE MONTHS ENDED JANUARY 31, 1999
(AMOUNTS IN THOUSANDS)

	Revenues		Earnings (loss)	
	2000	1999	2000	1999
U.S. tax operations	\$ 237,851	\$ 189,083	\$ (29,427)	\$ (18,845)
International tax operations	8,478	6,776	(7,134)	(7,508)
Financial services	182,419	79,350	43,976	24,189
Business services	82,806	15,341	2,156	(1)
Unallocated corporate	953	932	(5,226)	(3,231)
Interest expense on acquisition debt	-	-	(18,472)	(4,438)
	<u>\$ 512,507</u>	<u>\$ 291,482</u>	<u>(14,127)</u>	<u>(9,834)</u>
Investment income, net			72	4,641
Intercompany interest			532	605
			(13,523)	(4,588)
Income tax benefit			(6,448)	(1,743)
Net loss from continuing operations			(7,075)	(2,845)
Net loss from discontinued operations			-	(273)
Net loss on sale of discontinued operations			-	(19,978)
Net loss			<u>\$ (7,075)</u>	<u>\$ (23,096)</u>

Consolidated revenues for the three months ended January 31, 2000 increased 75.8% to \$512.5 million from \$291.5 million reported last year. The increase is primarily due to acquisitions. Revenues from Financial services increased 129.9% over last year, due to the acquisition of Olde, and Business services increased \$67.5 million over the prior year, due mainly to the acquisition of RSM.

The consolidated pretax loss from continuing operations for the third quarter of fiscal 2000 increased to \$13.5 million from \$4.6 million in the third quarter of last year. The increase is attributable to increased losses from U.S. tax operations. These increases were partially offset by improved results from Financial services.

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The net loss from continuing operations was \$7.1 million, or \$.07 per share, compared to \$2.8 million, or \$.03 per share, for the same period last year.

An analysis of operations by reportable operating segments follows.

U.S. TAX OPERATIONS

Revenues increased 25.8% to \$237.9 million from \$189.1 million last year, resulting primarily from increased revenues from higher tax preparation fees that are attributable to an increase in the number of clients served and price increases. During the first month of the U.S. tax-filing season, the number of clients served in company-owned offices increased 11.0%. Improved software sales also contributed to the increase.

The pretax loss increased 56.2% to \$29.4 million from \$18.8 million in the third quarter of last year due to higher expenses related to increased competitive conditions for software sales and the startup of new e-commerce initiatives, as well as normal operational increases in compensation and benefits, rent and other facilities-related expenses and marketing and advertising related to tax services. An increase in the number of tax offices over the prior year also contributed to the increased expenses in tax services. These losses were partially offset by improved performance of Refund Anticipation Loans (RALs) due to lower bad debt expense, which is believed to primarily be a result of the IRS Debt Indicator Program. Due to the nature of this segment's business, the results for the first month of the tax-filing season are not necessarily indicative of expected results for the entire tax season.

INTERNATIONAL TAX OPERATIONS

Revenues increased 25.1% to \$8.5 million compared to \$6.8 million in the prior year's third quarter. The increase is principally attributable to higher check cashing and tax preparation fees in Canada and higher tax preparation fees in Australia.

The pretax loss decreased 5.0% to \$7.1 million from \$7.5 million last year. The decrease is due to lower freight and postage and facilities-related expenses in Canada. The lower facilities-related expense is attributable to a decrease in the number of tax offices to 537 compared to 574 in the prior year. Improved results from Australia and the United Kingdom also contributed to the decreased loss. Due to the nature of this segment's business, third quarter operating results are not indicative of expected results for the entire fiscal year.

FINANCIAL SERVICES

Revenues increased 129.9% to \$182.4 million from \$79.4 million in the same period last year. The increase is primarily attributable to the acquisition of Olde on December 1, 1999. Olde contributed revenues for the two-month period of \$92.8 million. Option One, which includes H&R Block Mortgage Corporation (formally Assurance Mortgage Corporation of America), also contributed \$77.2 million to revenues, an 11.8% increase over the prior year. Option One originated and sold or securitized \$1.4 billion in loans during the third quarter of fiscal 2000, compared to \$930.2 million originated and \$1.3 billion sold or securitized in the third quarter last year.

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Financial services pretax earnings of \$44.0 million increased 81.8% this year compared to \$24.2 million during the third quarter of fiscal 1999. The increase is mainly due to the acquisition of Olde, which contributed earnings of \$25.7 million for the two-month period. Pretax earnings were reduced by losses related to the startup of financial services operations that offer financial planning services in H&R Block Financial Centers and tax offices.

BUSINESS SERVICES

Business services revenues of \$82.8 million increased 439.8% from \$15.3 million in the third quarter last year. The increase is primarily due to the acquisition of two regional and one national accounting firm, RSM, as well as several smaller market firms since the third quarter of fiscal 1999. Pretax earnings were \$2.2 million compared to a loss of \$1 thousand in the prior year, which includes goodwill amortization of \$5.7 million and \$1.1 million, respectively. Due to the nature of this segment's business, revenues are seasonal, while expenses are relatively fixed throughout the year. Results for the third quarter are not indicative of the expected results for the entire year.

INVESTMENT INCOME, NET

Net investment income decreased 98.4% to \$72 thousand from \$4.6 million last year. The decrease is due to less funds available for investment resulting from using corporate cash to fund acquisitions and mortgage loans held for sale.

UNALLOCATED CORPORATE AND ADMINISTRATIVE

The unallocated corporate and administrative pretax loss for the third quarter increased 61.7% to \$5.2 million from \$3.2 million in the comparable period last year. The increase is due to higher employee costs and consulting fees and the timing of charitable contributions. Also contributing to the increased loss from last year are lower earnings from the Company's captive insurance company.

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THREE MONTHS ENDED JANUARY 31, 2000 (THIRD QUARTER) COMPARED TO
THREE MONTHS ENDED OCTOBER 31, 1999 (SECOND QUARTER)
(AMOUNTS IN THOUSANDS)

	Revenues		Earnings (loss)	
	3rd Qtr ----- -----	2nd Qtr ----- -----	3rd Qtr ----- -----	2nd Qtr ----- -----
U.S. tax operations	\$ 237,851	\$ 19,723	\$ (29,427)	\$ (83,663)
International tax operations	8,478	14,713	(7,134)	(1,644)
Financial services	182,419	91,503	43,976	20,931
Business services	82,806	83,167	2,156	(2,134)
Unallocated corporate	953	840	(5,226)	(3,431)
Interest expense on acquisition debt	-	-	(18,472)	(7,042)
	-----	-----	-----	-----
	\$ 512,507	\$ 209,946	(14,127)	(76,983)
	=====	=====		
Investment income, net			72	2,402
Intercompany interest			532	2,424
			-----	-----
			(13,523)	(72,157)

Income tax benefit	(6,448)	(27,420)
	-----	-----
Net loss from continuing operations	(7,075)	(44,737)
Net loss from discontinued operations	-	-
Net loss on sale of discontinued operations	-	-
	-----	-----
Net loss	\$ (7,075)	\$ (44,737)
	=====	=====

Consolidated revenues for the three months ended January 31, 2000 increased 144.1% to \$512.5 million from \$209.9 million reported in the second quarter of fiscal 2000. The increase is primarily due to revenues from U.S. tax operations related to the beginning of the U.S. tax-filing season, as well as increased revenues from Financial services related to the acquisition of Olde on December 1, 1999.

The consolidated pretax loss from continuing operations for the third quarter of fiscal 2000 decreased to \$13.5 million from \$72.2 million in the second quarter of this year. The decrease is attributable to U.S. tax operations, which incurred a pretax loss of \$29.4 million this quarter compared to a pretax loss of \$83.7 million in the second quarter, and improved results from Financial services.

The net loss from continuing operations was \$7.1 million, or \$.07 per share, compared to \$44.7 million, or \$.46 per share, for the second quarter.

An analysis of operations by reportable operating segments follows.

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U.S. TAX OPERATIONS

Revenues increased \$218.2 million to \$237.9 million from \$19.7 million in the second quarter. The pretax loss decreased 64.8% to \$29.4 million from \$83.7 million in the three months ended October 31, 1999. The improved results are due to the start of the U.S. tax-filing season.

INTERNATIONAL TAX OPERATIONS

Revenues decreased 42.4% to \$8.5 million compared to the second quarter revenues of \$14.7 million. The pretax loss increased 333.9% to \$7.1 million from \$1.6 million in the second quarter. The decreased results are due to the timing of the tax-filing seasons in Australia and Canada. The Australian tax season ends in October while the Canadian tax season begins in late January.

FINANCIAL SERVICES

Revenues increased 99.4% to \$182.4 million from \$91.5 million in the prior quarter. Pretax earnings increased 110.1% to \$44.0 million from \$20.9 million in the three months ended October 31, 1999. The improved results are primarily due to the acquisition of Olde on December 1, 1999, which contributed \$92.8 million in revenues and \$25.7 million in pretax earnings for the two months ended January 31. The increase in pretax earnings was partially reduced by losses related to the startup of financial services operations that offer financial planning services in H&R Block Financial Centers and tax offices.

BUSINESS SERVICES

Revenues decreased .4% to \$82.8 million from \$83.2 million in the three months ended October 31, 1999. Pretax earnings were \$2.2 million, compared to a pretax loss of \$2.1 million in the prior quarter. The improved results are mainly due to the improved results of RSM resulting from increased revenues, due to the start of the tax and accounting season, as well as a decrease in personnel training costs and lower bad debt expense. Additionally the onset of the

accounting firms' tax and accounting season improved the results of a majority of the other firms.

INVESTMENT INCOME, NET

Net investment income decreased 97.0% to \$72 thousand from \$2.4 million in the second quarter of fiscal 2000. The decrease resulted from less funds available for investment due to the use of internal cash to fund operations.

UNALLOCATED CORPORATE AND ADMINISTRATIVE

The unallocated corporate and administrative pretax loss for the third quarter increased 52.3% to \$5.2 million from \$3.4 million in the second quarter. The increase is due to higher employee costs and consulting fees and the timing of charitable contributions. Improved results at the Company's captive insurance subsidiary partially offset the increased loss.

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NINE MONTHS ENDED JANUARY 31, 2000 COMPARED TO
NINE MONTHS ENDED JANUARY 31, 1999
(AMOUNTS IN THOUSANDS)

	Revenues		Earnings (loss)	
	2000	1999	2000	1999
U.S. tax operations	\$ 270,649	\$ 219,662	\$ (184,160)	\$ (137,977)
International tax operations	27,259	22,030	(15,299)	(15,742)
Financial services	353,376	185,005	83,733	48,043
Business services	190,165	18,205	(169)	(220)
Unallocated corporate	2,564	2,766	(12,003)	(8,989)
Interest expense on acquisition debt	-	-	(29,952)	(13,319)
	<u>\$ 844,013</u>	<u>\$ 447,668</u>	<u>(157,850)</u>	<u>(128,204)</u>
Investment income, net			5,125	28,177
Intercompany interest			7,248	2,415
			(145,477)	(97,612)
Income tax benefit			(56,591)	(37,072)
Net loss from continuing operations			(88,886)	(60,540)
Net loss from discontinued operations			-	(1,490)
Net loss on sale of discontinued operations			-	(19,978)
Net loss			<u>\$ (88,886)</u>	<u>\$ (82,008)</u>

Consolidated revenues for the nine months ended January 31, 2000 increased 88.5% to \$844.0 million from \$447.7 million reported last year. The increase is primarily due to acquisitions in the Business and Financial services segments. Revenues from Business services increased \$172.0 million over last year and Financial services increased \$168.4 million over the nine-month period last year. U.S tax operations also contributed to the increase.

The consolidated pretax loss from continuing operations for the first nine

months of fiscal 2000 increased to \$145.5 million from \$97.6 million last year. The increase is attributable to higher losses from U.S. tax operations and lower investment income, which were reduced by increased earnings from Financial services, resulting from the Olde acquisition.

The net loss from continuing operations was \$88.9 million, or \$.91 per share, compared to \$60.5 million, or \$.60 per share, for the same period last year.

An analysis of operations by reportable operating segments follows.

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U.S. TAX OPERATIONS

Revenues increased 23.2% to \$270.6 million from \$219.7 million last year, resulting primarily from higher tax preparation fees that are attributable to a 11.0% increase in clients served during the first month of the tax season and price increases. Revenues from software sales also contributed to the increase.

The pretax loss increased 33.5% to \$184.2 million from \$138.0 million in the comparable period last year due to normal operational increases in compensation, rent and other facility-related expenses and consulting expenses related to tax services, increased competitive conditions related to software sales and the startup of e-commerce initiatives. In addition to the normal increases, the higher compensation is related to a change in the field manager compensation structure that shifts their compensation to salary incurred throughout the year from incentive bonuses incurred during the fourth quarter. Contributing to the increases in rent and other facility-related expenses is an increase in the amount of tax office space maintained under lease during this year's off-season, as well as an additional 282 tax offices this tax season compared to last year's tax season. The increased loss was partially offset by earnings from RALs due to lower bad debt expense, which is believed to primarily be a result of the IRS Debt Indicator Program. Due to the nature of this segment's business, the nine-month operating results are not indicative of expected results for the entire fiscal year.

INTERNATIONAL TAX OPERATIONS

Revenues increased 23.7% to \$27.3 million compared to \$22.0 million in the prior year. The increase is due to Australia and Canada operations. The increase in Australian revenues is due to higher tax preparation fees which is the result of an 8.5% increase in the number of tax returns prepared over the same period last year. The increase in Canadian revenues is due to higher check cashing, tax preparation and discounted return fees.

The pretax loss decreased 2.8% to \$15.3 million from \$15.7 million last year. The decrease is due to improved results in Australia and the United Kingdom. These results were partially offset by increased losses from Canada operations. Due to the nature of this segment's business, the nine-month operating results are not indicative of expected results for the entire fiscal year.

FINANCIAL SERVICES

Revenues increased 91.0% to \$353.4 million from \$185.0 million in the same period last year. The increase is attributable to Olde, which was acquired on December 1, 1999, and Option One. Olde contributed revenues of \$92.8 million. Option One, which includes H&R Block Mortgage Corporation (formally Assurance Mortgage Corporation of America), contributed revenues of \$222.6 million for the nine months, a \$64.8 million increase over the same period last year. Option One originated and sold or securitized \$4.2 billion in loans during the first nine months of fiscal 2000, compared to \$2.5 billion in the same period last year. The Company's other mortgage operations and Birchtree Financial, a broker-dealer, contributed to the improved revenues.

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Pretax earnings increased 74.3% to \$83.7 million from \$48.0 million in the prior year. The increase is primarily due to Olde, acquired December 1, 1999, which contributed earnings of \$25.7 million and Option One, which contributed earnings of \$63.5 million compared to earnings of \$46.7 million last year. Earnings were reduced by losses related to the startup of financial services operations that offer financial planning services in H&R Block Financial Centers and tax offices.

BUSINESS SERVICES

Business services contributed revenues of \$190.2 million compared to \$18.2 million for the nine months ended January 31, 1999. The pretax loss decreased to \$169 thousand compared to \$220 thousand for the same period last year, which includes goodwill amortization of \$12.7 million and \$1.3 million, respectively. Business services was a new reportable operating segment in fiscal 1999 with only one regional accounting firm acquired during the first six months last year and an additional four acquired in the third quarter last year. However, in the nine-month period of fiscal 2000, there are seven regional accounting firms and several smaller market firms that have been included for the full nine months and a national accounting firm, RSM, that has been included for six months. Due to the nature of this segment's business, revenues are seasonal, while expenses are relatively fixed throughout the year. Results for the nine months are not indicative of the expected results for the entire fiscal year.

INVESTMENT INCOME, NET

Net investment income decreased 81.8% to \$5.1 million from \$28.2 million last year. The decrease is due to less funds available for investment resulting from internal cash used to fund acquisitions and operations instead of short-term borrowings.

UNALLOCATED CORPORATE AND ADMINISTRATIVE

The unallocated corporate and administrative pretax loss for the nine months increased 33.5% to \$12.0 million from \$9.0 million in the comparable period last year. The increase is a result of increased employee costs and consulting fees and the timing of charitable contributions.

OTHER ISSUES

YEAR 2000

The Company has completed preparation for the Year 2000, and to date has successfully managed the transition without any disruption of business. The Company had estimated the cost of the Year 2000 issue to be \$3.9 million and actual results through January 31, 2000 were not materially different. While the Company does not anticipate problems, the Company could still encounter unanticipated issues related to the Year 2000. The Company will continue to monitor its computer systems, services, vendor and suppliers as needed throughout 2000 to address any such issues.

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QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes in market risk from those reported at April 30, 1999.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

CompuServe Corporation (CompuServe), certain current and former officers and directors of CompuServe and the registrant are named defendants in six lawsuits pending before the state and Federal courts in Columbus, Ohio since 1996. All suits allege similar violations of the Securities Act of 1933 based on assertions of omissions and misstatements of fact in connection with CompuServe's public filings related to its initial public offering in April 1996. One state lawsuit also alleges certain oral omissions and misstatements in connection with such offering. Relief sought in the lawsuits is unspecified, but includes pleas for rescission and damages. One Federal lawsuit names the lead underwriters of CompuServe's initial public offering as additional defendants and as representatives of a defendant class consisting of all underwriters who participated in such offering. The Federal suits were consolidated, the defendants filed a motion to dismiss the consolidated suits, the district court stayed all proceedings pending the outcome of the state court suits, and the United States Court of Appeals for the Sixth Circuit affirmed such stay. The four state court lawsuits allege violations of various state statutes and common law of negligent misrepresentation in addition to the 1933 Act claims. The state lawsuits were consolidated for discovery purposes and defendants filed a motion for summary judgment covering all four state lawsuits. As a part of the sale of its interest in CompuServe, the Company agreed to indemnify WorldCom, Inc. and CompuServe against 80.1% of any losses and expenses incurred by them with respect to these lawsuits. The defendants are vigorously defending these lawsuits. In the opinion of management, the ultimate resolution of these suits will not have a material adverse impact on the Company's consolidated financial position or results of operations. The lawsuits discussed herein were previously reported in the first and second quarter 2000 Forms 10-Q filed by the Company.

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

a) Exhibits

- 10.1 Amendment No. 4 to the H&R Block Deferred Compensation Plan for Executives, as Amended and Restated.
 - 10.2 Amendment No. 6 to the H&R Block Deferred Compensation Plan for Directors.
 - 10.3 Executive's Agreement dated January 20, 1998, between H&R Block Tax Services, Inc. and Thomas L. Zimmerman.
 - 10.4 Employment Agreement dated September 7, 1999, between HRB Management, Inc. and Jeffery W. Yabuki.
 - 10.5 Employment Agreement dated January 26, 2000, between HRB Management, Inc. and Frank J. Cotroneo.
- 27 Financial Data Schedule

b) Reports on Form 8-K

A Form 8-K, Current Report, dated December 1, 1999, was filed on December 14, 1999, by the registrant reporting under "Item 2" the acquisition of Olde Financial Corporation on December 1, 1999. The registrant reported under "Item 7" that the financial statements of Olde Financial Corporation and the registrant's pro forma financial statements would be filed as soon as practicable, but no more than 60 days after that Current Report. The press release was included as Exhibit 99.1 to the Form 8-K.

A Form 8-K/A, Current Report, dated December 1, 1999, was filed on February 14, 2000 by the registrant reporting under "Item 7" the audited financial statements of Olde Financial Corporation for the years ended December 31, 1998 and 1997, the unaudited financial statements of Olde Financial Corporation for the six months ended September 24, 1999 and September 25, 1998, and the unaudited pro forma balance sheet of the registrant as of October 31, 1999 and the statements of operations of the registrant for the year ended April 30, 1999 and the six months ended October 31, 1999. The consent of independent auditors was included as Exhibit 23.1 to the Form 8-K/A.

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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 03/16/00
-----BY /s/ Mark A. Ernst
-----Mark A. Ernst
President and
Chief Operating OfficerDATE 03/16/00
-----BY /s/ Cheryl L. Givens
-----Cheryl L. Givens
Vice President and Corporate Controller

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AMENDMENT NO. 4
TO THE
H&R BLOCK DEFERRED COMPENSATION PLAN
FOR EXECUTIVES, AS AMENDED AND RESTATED

H&R Block, Inc. (the "Company") adopted the H&R Block Deferred Compensation Plan for Executives, as Amended and Restated (the "Plan"), effective as of January 1, 1999. The Company amended said Plan by Amendment No. 1 effective as of January 1, 1999, by Amendment No. 2 effective as of January 1, 2000, and by Amendment No. 3 effective as of September 8, 1999. The Company continues to retain the right to amend the Plan pursuant to action by the Company's Board of Directors. The Company hereby exercises that right. This Amendment No. 4 is effective as of December 31, 1999.

AMENDMENT

1. Section 4.1.2 of the Plan, as previously amended, is further amended by (a) adding the following words and punctuation after the words and punctuation "provided, however, that" and before the words "the maximum percentage" in the first paragraph of said Section:

"(i) each participating Affiliate may elect before an Enrollment Period to have no Matching Contributions posted during the Plan Year (to which the enrollment period relates) to the Accounts of Participants employed by such Participating Affiliate, but such election is irrevocable and will automatically apply to all future Plan Years., and (ii)";

and (b) deleting the final sentence of the first paragraph of said Section.

2. Except as modified in this Amendment No. 4, the Plan shall remain in full force and effect, including the Company's right to amend or terminate the Plan as set forth in Article 9 of the Plan.

H&R BLOCK, INC.

By: /s/ Frank L. Salizzoni

Its: Chief Executive Officer

AMENDMENT NO. 6
TO THE
H&R BLOCK DEFERRED COMPENSATION PLAN FOR DIRECTORS

H&R BLOCK, INC. (the "Company") adopted the H&R Block Deferred Compensation Plan for Directors (the "Plan") effective as of August 1, 1987. The Company amended said Plan by Amendment No. 1 effective May 1, 1995; by Amendment No. 2 effective December 11, 1996; by Amendment No. 3 effective May 1, 1997; by Amendment No. 4 effective January 1, 1998; and by Amendment No. 5 effective in part on March 1, 1998 and in part on April 1, 1998. The Company continues to retain the right to amend the Plan pursuant to action by the Company's Board of Directors. The Company hereby exercises that right. This Amendment No. 6 is effective as of December 8, 1999.

AMENDMENT

1. Section 6.2.3 of the Plan, as previously amended, is further amended by replacing it with the following new Section 6.2.3:

"6.2.3 The amount of each level payment for the Initial Payment Period, if any, shall be calculated using the balance in the Account as of the beginning of the Initial Payment Period and amortizing such balance over the remaining Overall Payment Period (a) using an assumed interest rate equal to the rate of one-year United States Treasury notes for each Participant receiving payments of benefits prior to December 8, 1999, said rate to be determined once each Plan Year and to be the rate in effect as of the September 30 immediately preceding the payment period to which it applies, as published by Solomon Smith Barney Inc., or any successor thereto, or as determined by the Chief Financial Officer of the Company (the "Assumed Interest Rate"), and (b) using an assumed interest rate of zero percent (0%) for all other Participants. The amount of each level payment for each Calendar Year Payment Period shall be calculated by taking the balance in the Account as of November 30 of the calendar year immediately prior to such Calendar Year Payment Period, subtracting the benefit payments made during the portion of such preceding calendar year following November 30, and amortizing the difference over the remaining Overall Payment Period (x) using the Assumed Interest Rate for each participant receiving payments of benefits prior to December 8, 1999, and (y) using an assumed interest rate of zero percent (0%) for all other Participants. The amount of each level payment for the Remainder Payment Period, if any, shall be calculated by taking the balance in the Account as of November 30 of the calendar year immediately prior to the Remainder Payment Period, subtracting the benefit payments made during the portion of such preceding

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calendar year following November 30, and amortizing the difference over the Remainder Payment Period using an assumed interest rate of zero percent (0%) per annum. If the actual crediting rate for the Remainder Payment Period is more than zero percent, the additional gain resulting from the difference shall be paid to the Participant in a single payment within six months after the last day of the Remainder Payment Period."

2. Except as modified in this Amendment No. 6, the Plan, as previously amended, shall remain in full force and effect, including the Company's right to amend or terminate the Plan as set forth in Article 9 of the Plan.

By: /s/Frank L. Salizzoni

Its: Chief Executive Officer

EXECUTIVE'S AGREEMENT

THIS EXECUTIVE'S AGREEMENT ("AGREEMENT") is made and entered into as of the 20th day of January, 1998 ("Employment Date") between H&R BLOCK TAX SERVICES, INC., a Missouri corporation ("Company"), and Thomas L. Zimmerman ("Executive").

In consideration of the mutual covenants and consideration hereinafter set forth, the Company and the Executive (collectively, the "Parties") agree as follows:

1. Employment

Executive is hereby employed by the Company as President-H&R Block Tax Services, Inc. The Company reserves the right, in its sole discretion, to change the title and/or job description of Executive at any time.

2. Term

Unless terminated sooner as provided below, the term of this Agreement will end May 31 next following the Employment Date ("Initial Term"), but will extend automatically from year to year thereafter (each such year a "Renewal Term"); provided, however, that either Party may terminate this Agreement and every Renewal Term on any May 31, upon written notice given to the other Party at least 15 days prior to that May 31.

3. Salary

Executive's salary for the Initial Term and each Renewal Term will be at an annual rate of \$275,000 ("Salary"), payable in approximately equal semi-monthly installments commencing September 1, 1997. The Company may in its sole discretion and without the need to amend this Agreement increase Executive's Salary at any time.

4. Short Term Incentive Compensation.

In addition to Salary as provided for in Section 3 above, Executive may be entitled to participate in a short term incentive compensation program, as any such program exists, in the Initial Term or any Renewal Terms. The existence of any such short term incentive compensation program, the factors upon which any such short term incentive compensation is contingent, and the circumstances under which it is paid may be determined by the Company from year to year.

5. Duties

The duties of Executive are generally described in the job description provided to Executive on or before the Employment Date. The Company reserves the right to modify, delete, add, or otherwise change Executive's job responsibilities and job description, in its sole discretion, at any time. Executive shall perform such other duties, which may be beyond the scope of the job description, as are assigned to him or her by the Company from time to time. Executive shall devote his or her full productive time

and abilities to the efficient management of the Company and to carrying out his or her duties as specified above, and shall not participate in any conflicting activity. Executive must receive prior written consent of the Company before accepting any other employment during the term of this Agreement.

Executive shall conduct all business in accordance with the law (including, but not limited to, state and federal wage and hour laws) and the H&R Block, Inc. Code of Business Ethics and Conduct, which Executive acknowledges having read and understood. Executive also understands that the Company's business is subject to governmental regulation, some of which may require Executive to submit to background investigation as a condition of the

Company's participation in certain activities subject to such regulation. If Executive, the Company, H&R Block, Inc., and/or the other direct or indirect subsidiaries of H&R Block, Inc. (the Company, each such subsidiary and H&R Block, Inc. an "H&R Block Affiliate") 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 may be terminated by the Company without notice.

6. Confidential Information

The Company has spent many years developing its business and believes that its methods of operation are unique within its industry and constitute trade secrets and confidential business information. In the course of Executive's employment with the Company, Executive has and will be given access to trade secrets and confidential business information of the Company and H&R Block Affiliates, including, but not limited to: methods of operation and distribution; its Operations Manual and other similar manuals; procedures and processes related to electronic filing and refund anticipation loans; plans and strategies relating to marketing, advertising, the development of products and services, and other long and short term strategic plans; terms and conditions of contracts with any person or entity; forecasts; potential business acquisitions or dispositions; financial cost and price information; lists, names, addresses, telephone numbers or other identifying information of customers and/or employees of either the Company or any other H&R Block Affiliate; software; systems; and marketing databases. Executive acknowledges that he or she possesses or has access to such trade secrets and confidential business information, which could be used to substantially injure the Company and other H&R Block Affiliates in their present and future operations and expansions. Therefore, while this Agreement is in effect and for a period of two years thereafter, Executive shall not, without the Company's prior written authorization, directly or indirectly make known, divulge or communicate to any person or entity any trade secrets or confidential business information of the Company or any other H&R Block Affiliate, including, but not limited to, the items listed in the first and second sentences of this Section 6, or use such trade secrets and confidential business information for any reason other than to enable Executive to properly and completely perform his or her duties hereunder. The running of the two year period shall be suspended during any period of violation and/or any period of time required to enforce this covenant by litigation.

Executive shall not, at any time during or after the term of this Agreement, without the Company's prior written authorization, make copies of, reproduce or remove

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from offices of any H&R Block affiliate any lists, computer disks, files, documents or other items containing names, addresses, or telephone numbers or other identifying information of one or more customers and/or employees of either the Company or any other H&R Block Affiliate or any other trade secrets or confidential business information of the Company or any other H&R Block Affiliate. Executive acknowledges that there are restrictions and limitations established by section 7216 of the Internal Revenue Code of 1986, as amended, and the regulations thereunder, pertaining to the use and/or disclosure of confidential tax return information of the Company's customers. Executive will not at any time disclose or use any such confidential tax return information in violation of the law.

7. Covenant Against Competition

During the term of this Agreement, Executive shall not, anywhere in the United States of America, directly or indirectly (whether as owner, employee, agent, partner, stockholder, officer, director or in any other capacity), solicit, accept or in any way establish or engage in any business for the preparation or electronic filing of tax returns or provision of other services or products that are offered in the offices operated by the Company and its subsidiaries. For a period of two years after termination of this Agreement, Executive shall not, directly or indirectly (whether as owner, employee, agent,

partner, stockholder, officer, director or in any other capacity), solicit, accept or in any way establish or engage in any business for the preparation or electronic filing of tax returns or provision of other services or products that are offered in more than fifty percent of the offices operated by the Company and its subsidiaries. The running of the two year period shall be suspended during any period of violation and/or any period of time required to enforce this covenant by litigation.

8. Covenant Against Solicitation

During the term of this Agreement and for a period of two years thereafter, Executive shall not, directly or indirectly solicit, divert or take away any of the employees, customers, third party contractors (or any contracts or arrangements therewith) or patronage of the Company or any H&R Block Affiliate anywhere within the United States of America. The running of the two year period shall be suspended during any period of violation and/or any period of time required to enforce this covenant by litigation.

9. Injunctive Relief

Executive recognizes that because of his or her access to trade secrets and confidential business information and his or her substantial training and experience with the Company, irreparable injury to the Company and/or one or more H&R Block Affiliates would result from his or her violation of any provision of Sections 6, 7, or 8 of this Agreement. Executive therefore agrees that, in addition to and without limitation of any right the Company may have under this Agreement or under common law, any such violation shall be the proper subject matter for injunctive relief. The provisions of Sections 6, 7, 8, and 9 shall survive termination of this Agreement and shall be enforceable in accordance with their terms.

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10. Litigation

In the event of litigation arising out of a breach of this Agreement by Executive, the ultimately prevailing party shall be entitled to payment by the ultimately nonprevailing party of its reasonable costs and attorneys' fees, including, but not limited to, such fees incurred during any such litigation on appeal.

11. Termination Upon Default

The Company may, at any time, at its option, terminate this Agreement and the employment of Executive without notice in the event of:

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

(b) Executive's disobedience, insubordination or failure to discharge his or her duties; or

(c) Executive's breach of any of the provisions of Sections 6, 7, or 8 of this Agreement; or

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

(e) The inability of an H&R Block 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 the last paragraph of Section 5 of this Agreement.

In the event of a breach of a type not specifically enumerated in (a) through (e) of this Section 11 by Executive of any of his or her obligations under this Agreement or in the event of a failure by Executive to perform his or

her duties in a manner which the Company, in its sole judgment, considers to be diligent and competent, and if such breach or failure continues for more than 10 days after notice from the Company or is not corrected to the satisfaction of the Company within said 10 day period, then the Company may, at its option, terminate this Agreement and the employment of Executive.

If Executive's services are terminated pursuant to paragraphs (a), (b), (c), (d) or (e) of this Section 11, his or her compensation shall then automatically cease, except as to any short term incentive compensation to which he or she may be entitled on the date of termination. If Executive's services are terminated for any reason other than pursuant to paragraphs (a), (b), (c), (d) or (e) of this Section 11 or Section 12, upon Executive's execution of a release of all claims arising out of his or her employment (except claims for salary owed at the time of termination, any short term incentive compensation to which Executive may be entitled at the time of termination or pursuant to this Section 11, and any severance pay provided for in this Section 11), the Company shall pay to

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Executive (i) severance pay in the amount of one month's salary for each year of service with the Company or any other H&R Block Affiliate, up to a maximum of 12 months' salary, and (ii) if such termination occurs between November 1 and May 31 of any year, any short term incentive compensation to which Executive would have been entitled, had he or she continued to be employed through May 31 of such year. Any severance pay shall be based upon Executive's annual rate of Salary in effect on the date of termination. Any severance pay to which Executive is entitled pursuant to this paragraph shall be paid by the Company within 30 days after termination in a lump sum, and any short term incentive compensation to which Executive is entitled pursuant to this paragraph shall be paid by the Company within 30 days after the amount is calculated by the Company.

12. Death

In the event of Executive's death, this Agreement shall terminate as of the last day of the month during which death occurs. Executive's compensation hereunder shall automatically cease upon the date of the termination of this Agreement, except as to any short term incentive compensation that he or she may be entitled on the date of termination.

13. Severability

It is intended that each Section, paragraph, clause or provision (collectively, "Provisions") of this Agreement be viewed as separate and divisible, and that, in the event that any Provision is held to be void, invalid, unenforceable or restricted by law or by applicable court decision in any locality or state, such Provision shall be ineffective to the extent of such voidness, invalidity, unenforceability or restriction without in any way voiding, invalidating, rendering unenforceable, restricting or affecting the remaining Provisions, and without voiding, invalidating, rendering unenforceable, restricting or affecting such Provisions within states or localities where not prohibited, invalidated or restricted by law or court decree. Should any time or geographic restriction contained in Sections 6, 7, or 8 be deemed unreasonable and therefore unenforceable, such restrictions shall be reduced to enforceable limitations and the remaining Provisions shall continue to be in full force and effect.

14. Notices

All notices required or desired to be given hereunder shall be in writing and shall be deemed served and delivered for all purposes if delivered in person or mailed, postage prepaid, to Executive at his or her last known address contained in Company records and to the Company at 4400 Main Street, Kansas City, Missouri 64111, or at such other place as either Party may designate to the other in writing from time to time. Any notice given by mail shall be deemed given as of the date it is so mailed and postmarked or received

by nationally recognized overnight courier for delivery.

15. Binding Effect

This Agreement is the entire agreement between the Parties, superseding and canceling any prior employment or Executive's agreement between them, oral or

written. No amendment or supplement hereto shall be valid unless in writing and signed by the Parties. This Agreement shall be governed by the laws of the State of Missouri and is effective only when executed by the President of the Company and approved in writing by the President and Chief Executive Officer of H&R Block, Inc.

The Parties have executed this Agreement in triplicate, as of the day and year first above written.

H&R BLOCK TAX SERVICES, INC.

By:/s/ Thomas L. Zimmerman

President

/s/Thomas L. Zimmerman

Executive

APPROVED:

/s/ Frank L. Salizzoni 11-1-99

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

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT ("Agreement") is entered into as of the 7th day of September, 1999, by and between HRB MANAGEMENT, INC., a Missouri corporation ("HRB") and Jeffery W. Yabuki ("Executive").

ARTICLE ONE

EMPLOYMENT

1.01 - Agreement as to Employment. Effective September 7, 1999, or such other date as is mutually agreed upon by Executive and HRB in writing (the "Employment Date"), HRB hereby employs Executive as President, H&R Block International of H&R BLOCK, INC., a Missouri corporation ("Block") and the indirect parent corporation of HRB, and Executive hereby accepts such employment by HRB, subject to the terms of this Agreement. Subject to the terms of Section 1.06 of this Agreement, 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 shall 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. Any termination of this Agreement shall not be effective as to those portions of this Agreement which, by their express terms as set forth below, require performance by either party following termination of this Agreement.

1.02 - Duties. (a) Executive is employed by HRB to serve as the President, H&R Block International of Block subject to the authority and direction of Block's Board of Directors (the "Board"), the Chief Executive Officer of Block, and the Chief Operating Officer of Block. Subject to the foregoing, the Executive shall have such authority and responsibility and duties as are normally associated with the principal officer of an operating segment of Block.

(b) So long as he is employed under this Agreement, Executive agrees to devote his full business time and efforts exclusively on behalf of HRB and Block and to competently and diligently discharge his duties hereunder. Executive shall not be prohibited from engaging in such personal, charitable, or other nonemployment activities as do not interfere with his full-time employment hereunder and which do not violate the other provisions of this Agreement. Executive may, following approval by the Board of Directors of Block, become a member of the board of directors of a "for-profit" corporation or entity. Such approval will not be unreasonably withheld by the Board, but such approval may be withheld if the Board reasonably determines that such activity conflicts with Executive's duties hereunder, either in terms of

Executive's time to be devoted thereto or in terms of the relationship of such corporation's or entity's business to the present or future business then conducted or proposed to be conducted by Block and its subsidiaries, whether or not such business is directly competitive with the business of Block. Executive shall comply fully with all reasonable policies of HRB and Block as are from time to time in effect and applicable to his position.

1.03 - Compensation. (a) Base Salary. HRB shall pay to Executive during the period between the Employment Date and June 30, 2000, a minimum gross salary at an annual rate of \$250,000 ("Base Salary"), payable semimonthly or at any other pay periods as HRB may use for its other executive employees. The Base Salary shall be reviewed for adjustment by the Board or appropriate committee thereof no less often than annually during the term of Executive's employment hereunder and, if adjusted by the Board, such adjusted

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

(b) Short-Term Incentive Compensation.

(i) As approved by the Compensation Committee of the Board, Executive shall participate in the H&R Block Short-Term Incentive Plan for the fiscal year ended April 30, 2000 and the discretionary short-term incentive program for such year. Under such Plan and program, the Executive shall have an aggregate target bonus for fiscal year 2000 of \$137,500 and an opportunity to earn 200% of such target bonus. The payment of the actual award under the Plan (80% of target) shall be based upon the performance criteria determined by the Compensation Committee to be applicable to HRB participants for fiscal year 2000. The payment of the actual award under the discretionary program shall be based upon the performance of H&R Block International (10% of target) and Executive's individual performance (10%), as determined by the Chief Operating Officer of Block and approved by the Compensation Committee. For purposes of Executive's participation in such Plan and program for the fiscal year ending April 30, 2000, Executive's actual incentive compensation shall be prorated based upon the number of months during such year that he is actually employed by HRB.

(ii) Executive shall be paid a \$70,000 bonus upon completion of his employment by HRB from the Employment Date through April 30, 2000.

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(c) Stock Options. As approved by the Compensation Committee of the Board and the Board itself, Executive shall be granted (i) on the Employment Date a stock option under Block's 1993 Long-Term Executive Compensation Plan (the "1993 Plan") to purchase 40,000 shares of Block's common stock at a price per share equal to the closing price thereof on the New York Stock Exchange on the date of grant, such option to expire on the tenth anniversary of the date of grant; to vest and become exercisable as to 40% of the shares covered thereby on the third anniversary of the date of grant, as to an additional 30% of such shares on the fourth anniversary of the date of grant, and as to the remaining 30% of the shares on the fifth 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; and (ii) a stock option to purchase a minimum of 22,000 shares under the 1993 Plan on the date of grant in fiscal year 2001 on which options are granted under the 1993 Plan to all or substantially all other senior executive officers of Block and its subsidiaries, such stock option to have terms and conditions consistent with the terms and conditions of options granted to such other senior executive officers except as provided in Section 1.06(a). Should HRB elect to change its fiscal year, such change shall not have a detrimental impact on Executive's stock option described in this Subsection 1.03(c)(2). In the event of a change in HRB's fiscal year, Executive shall be entitled to a pro rata adjustment of the minimum of 22,000 shares available for purchase by Executive under the 1993 Plan based on the number of months the fiscal year is extended.

(d) Restricted Stock. As approved by the Compensation Committee of the Board and the Board itself, Executive shall be awarded promptly after the date of the commencement of his employment, 28,300 Restricted Shares of Block's common stock under the 1993 Plan. One-third of the 28,300 shares shall vest, respectively, on each of the first three anniversaries following such employment commencement date. Prior to the time such Restricted Shares are so vested, 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. If the value of the Restricted Shares on the date of grant (determined by taking the average of the high and low reported sale price for Block Common Stock on such date and multiplying it by 28,300) does not equal or exceed \$1,570,000, such number of Restricted Shares shall be

increased to such number of Restricted Shares (rounded to the next highest 100 share increment) as shall first cause such fair market value equal to exceed \$1,570,000.

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(e) Relocation Benefits.

(i) HRB shall reimburse the Executive for reasonable packing, shipping, transportation costs and other expenses incurred by Executive in relocating himself, his family and personal property to the Greater Kansas City Area, in accordance with HRB's standard relocation policy.

(ii) If, as a result of Executive's acceptance of employment hereunder, Executive must reimburse any prior employer for any relocation expenses paid by such prior employer, HRB will pay to Executive the amount of any such reimbursement.

(iii) To the extent that Executive incurs taxable income related to any relocation benefits paid pursuant to this Agreement, HRB shall pay to Executive such additional amount as is necessary to "gross up" such benefits and cover the anticipated income tax liability resulting from such taxable income.

1.04 - Business Expenses. HRB shall 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 Block policy in effect from time to time and to the extent such expenses are reasonable and necessary to the conduct by Executive of Block's business.

1.05 - Fringe Benefits. During the term of Executive's employment hereunder, HRB shall make available to Executive such insurance, sick leave, deferred compensation, short-term incentive compensation, bonuses, stock options (also referred to in Subsection 1.03(c) above), retirement, vacation and other like benefits as are approved by the Board or the Compensation Committee thereof and provided from time to time to the other executive-level employees of HRB, Block or Block's other subsidiaries. Executive shall be entitled to 20 days of paid vacation per year, commencing as of the date of this Agreement.

1.06 - Termination of Employment. (a) If, prior to the date of Executive's retirement from gainful employment, HRB terminates Executive's employment pursuant to Section 1.01 of this Agreement without "cause" (as defined in Subsection 1.06(b), below), or if Executive terminates his employment pursuant to Sections 1.01 of this Agreement with "good reason" (as defined in Subsection 1.06(c) below) then, upon any such termination of Executive's employment, (i) subject to Subsection 3.04(c), HRB shall pay to Executive compensation at an annual rate equal to the sum of (A) the annual rate of Base Salary in effect upon such

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termination, and (B) the aggregate short-term incentive compensation (under the H&R Block Short-Term Incentive Plan and any discretionary incentive program) paid by HRB to Executive for the last fiscal year completed before the fiscal year in which the termination of employment occurs (or, if such termination occurs prior to end of the fiscal year in which the Employment Date occurs, the amount of actual aggregate short-term incentive compensation to which Executive would have been entitled (with any discretionary incentive compensation calculated at target) had Executive remained employed through the last day of such fiscal year), such compensation to be paid throughout the two-year period following such termination at such periodic intervals as Base Salary would have been made had Executive remained employed by HRB hereunder; (ii) any portion of any option to purchase shares of Block common stock granted pursuant to

Subsections 1.03(c) or 1.05 of this Agreement and held by Executive at the time of such termination of employment that is not yet vested in accordance with its terms, but would vest within two years after the date of such termination of employment, shall vest upon the date of such termination of employment to the extent that it would be vested at the end of such two-year period, and shall be exercisable to the extent so vested for a period of three months after such date of termination of employment; (iii) any Restricted Shares granted pursuant to Subsection 1.03(d) of this Agreement and held by Executive at the time of such termination of employment that are not yet vested (meaning the Shares are still subject to restrictions), but would vest within two years after the date of such termination of employment, shall vest upon the date of such termination of employment to the extent that they would be vested at the end of such two-year period, and all restrictions on any Restricted Shares so vested shall terminate; (iv) subject to Subsection 3.04(c), HRB shall, during the two-year period following such termination, continue Executive's health, life and disability insurance benefits, but only to the extent Executive does not obtain similar benefits paid for by a third party after such termination; (v) HRB shall pay to Executive, at such times as the same would have been paid Executive had he remained employed hereunder, a pro rata portion of any actual short-term incentive compensation to which he would have been entitled (with any discretionary incentive compensation calculated at target) pursuant to Subsection 1.03(b) (i) had he remained employed through the end of the fiscal year in which such termination occurs (such portion to be the actual short-term incentive compensation earned for the fiscal year during which such termination occurs as is proportionate to the portion of such fiscal year in which he is actively employed hereunder); and (vi) if not already paid, HRB shall pay to Executive the compensation specified in Subsection 1.03(b) (ii).

(b) As used in this Agreement, the term "cause" shall refer only to any one or more of the following grounds:

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(i) Executive's commission of an act or Executive's omission to act, that, in either case, (A) is materially and demonstrably detrimental to the good will of Block or any subsidiary of Block, and (B) constitutes gross negligence (specifically defined to mean acting, or omitting to act in a situation where there is a duty to act, not inadvertently, but willfully and intentionally with a conscious indifference to the consequences of such act or omission) or willful misconduct by the Executive in the performance of his material duties to HRB or Block; or

(ii) 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

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

(c) As used in this Agreement, Executive's termination of employment for "good reason" shall mean termination of employment based on any one or more of the following:

(i) An adverse change in Executive's status or position as an executive officer of Block, including, without limitation, (A) any adverse change in Executive's status or position as a result of a material diminution in Executive's duties, responsibilities or authority as of the date of this Agreement (or any status or position to which Executive may be promoted after the date hereof), or (B) the assignment to Executive of any duties or responsibilities which are inconsistent with Executive's status or position (except as may be related to a promotion or are intended to provide experience for a possible promotion to a position that is more senior than such status or position), or (C) any removal of Executive from or any failure to reappoint or reelect Executive to such positions (except in connection with an agreed upon promotion or the termination of Executive's employment for cause or by reason of Executive's disability or death);

(ii) A reduction by HRB in Executive's Base Salary to an annual rate below \$250,000 that is not mutually agreed upon by HRB and Executive.

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(iii) HRB's requiring (without Executive's agreement) Executive to be based anywhere outside the continental United States except for required travel on HRB or Block's business to an extent substantially consistent with the business travel obligations which Executive agreed to undertake on behalf of Block and HRB in connection with the position of President, H&R Block International prior to the date of this Agreement (or such obligations as Executive shall agree to undertake in connection with any promotion after the date of this Agreement);

(iv) The failure by HRB or Block to obtain from any successor an assent to this Agreement contemplated by Section 4.04 of this Agreement;

(v) Any purported termination by HRB of this Agreement or the employment of the Executive by HRB which is not expressly authorized by this Agreement or any breach of this Agreement by HRB (A) other than an isolated, insubstantial and inadvertent failure not occurring in bad faith and (B) which is not remedied by HRB within a reasonable period of time not to exceed forty-five (45) days after HRB's receipt of written notice of the breach from the Executive; or

(vi) Any refusal by HRB or Block to continue to allow Executive to attend to matters or engage in activities not directly related to the business of Block which, prior to the date of this Agreement or any time thereafter but prior to such refusal, Executive was permitted by the Board to attend to or engage in, provided that this Subsection 1.06(c)(v) shall not apply to any refusal resulting from a reasonable determination by the Board that such matters or activities conflict with Executive's duties hereunder, either in terms of Executive's time to be devoted thereto or in terms of the relationship of such matters or activities to the present or future business then conducted or proposed to be conducted by Block and its subsidiaries, whether or not such business is directly competitive with the business of Block.

(d) In the event of Executive's death, Executive's employment under this Agreement shall terminate and Executive's estate shall be paid the benefits described in Subsections 1.06(a)(ii, iii, v, & vi) of this Agreement. In the event of Executive's total and permanent disability defined under any long-term disability plan maintained by HRB or Block for HRB executives, Executive shall be paid the benefits described in

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Subsections 1.06(a)(ii, iii, iv, v, & vi) of this Agreement, and shall also be paid his Base Salary pursuant to Subsection 1.06(a)(i) to the date of the determination of such disability.

(e) The parties may terminate Executive's employment under this Agreement at any time by mutual written agreement.

(f) The termination of Executive's employment under this Agreement for any reason (or no reason) by HRB or by Executive during the 180-day period following the date of the occurrence of a "Change of Control" of Block shall be considered a termination of Executive's employment without cause for purposes of this Agreement. For the purpose of this subsection, a "Change of Control" shall mean:

(i) 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

(ii) individuals who, as of the date hereof, constitute the Board (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) shall be considered as though such individual were a member or members of the Incumbent Board, but excluding, for this

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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

(iii) approval by the shareholders of Block of (A) a reorganization, merger or consolidation 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, (B) a complete liquidation or dissolution of Block, voluntary or involuntary, or (C) the sale or other disposition of all or substantially all of the assets of Block.

(g) Upon termination of Executive's employment under this Agreement, HRB shall have no further obligations under this Agreement and no further payments of Base Salary or other compensation or benefits shall be payable by HRB to Executive, except (i) as set forth in this Section 1.06, (ii) as required by the express terms of any written benefit plans or written arrangements maintained by HRB and applicable to Executive at the time of such termination of Executive's employment, (iii) as may be required by law, or (iv) as may be mutually agreed upon between the parties in a negotiated Employment Agreement Termination package.

ARTICLE TWO

CONFIDENTIALITY

2.01 - Background and Relationship of Parties. The parties 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 HRB, Executive will be expected to have access to all information

of value to HRB 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.

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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, 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 shall not include any portions of such information which are now or hereafter made 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 shall be the sole property of Block (or the applicable subsidiary of Block) and its assigns, and Block (or the applicable subsidiary of Block) shall be 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, 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 HRB or an officer of Block or as may be required by law or the order of any court or governmental authority.

(b) In the event of the termination of Executive's employment by HRB for any reason (including no reason), Executive shall promptly deliver to HRB all copies of all documents, notes, drawings, specifications, documentation, data and other materials of any nature belonging to Block or any subsidiary of Block and obtained during the course of Executive's employment with HRB. 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.

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ARTICLE THREE

NON-HIRING; NO CONFLICTS; NONCOMPETITION

3.01 - General. The parties hereto acknowledge that, during the course of Executive's employment by HRB, Executive shall have access to information valuable to HRB and Block concerning the key 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 HRB, 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.

3.02 - Non-Hiring. During the period of Executive's employment hereunder and during the time Executive is receiving payments hereunder and for

a period of one year after the later of: termination by HRB or Executive for any reason (or no reason) of such employment or cessation of such payments, the Executive will not knowingly 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.

3.03 - No Conflicts. Executive represents in good faith that, to the best of his knowledge, the performance by Executive of all the terms of this Agreement will not breach any agreement as 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 with him to HRB or Block nor will Executive use in the performance of employment responsibilities at HRB 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 shall fulfill all such obligations during his employment with HRB.

3.04 - Non-Competition.

(a) During any period of Executive's employment with HRB, Executive shall not engage in, or own or control any interest in (except as a passive investor in publicly-held companies,

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holding less than one percent of its outstanding securities), or act as an officer, director or employee of, or consultant, advisor or lender to, any firm, corporation, institution or business which engages in any line of business which is competitive with any line of business of Block or any of its subsidiaries (or which Block or any subsidiary is engaged in evaluating or developing).

(b) During the two-year period immediately following the termination of Executive's employment hereunder by HRB or Executive for any reason (including no reason) other than a termination for "cause," as defined in Subsection 1.06(b) of this Agreement, Executive will not, except as permitted by Subsection (c), below (i) own or control any interest in (except as a passive investor in publicly-held companies, holding less than one percent of its outstanding equity securities) any firm, corporation, institution or business that derives more than 40% of its revenues from tax and accounting services, or (ii) act as an officer, director or employee of, or consultant, advisor or lender to, any line of business of any firm, corporation, institution or business which line of business (A) is competitive with any line of business of Block or any of its subsidiaries, (B) is one in which Executive has or had significant management responsibilities prior to or at the time Executive's employment terminates, and (C) derives more than 40% of its revenues from tax and accounting services (any such line of business to be referred to in this Agreement as a "Competitive Line of Business" and the prohibited acts set forth in Subsections 3.04(b)(i) and (ii) to be referred to in this Agreement as the "Prohibited Acts"). The Prohibited Acts shall not preclude Executive from serving as an officer, director or employee of, or consultant, advisor or lender to, any firm, corporation, institution or business with respect to any line of business of such firm, corporation, institution or business that is not a Competitive Line of Business, provided that Executive shall not provide direct or indirect services, oversight, management, advice or loans to any Competitive Line of Business and the person or persons responsible for the day-to-day business of any such Competitive Line of Business shall not directly or indirectly report to Executive.

(c) Notwithstanding the provisions of Subsection 3.04(b), above, (i) during the two-year period immediately following termination of Executive's employment hereunder by HRB for cause, Executive may engage in the Prohibited Acts, or any one of them, without HRB's prior written consent, and (ii) during the two-year period immediately following termination of Executive's employment hereunder by HRB without "cause," or Executive's termination of this Agreement for good reason, Executive may engage in the Prohibited Acts, or any one of them, only if HRB gives to Executive its prior written consent to such Prohibited Act. As of the effective date of any Prohibited Act to which HRB has

consented, HRB shall have no further obligation to continue to

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pay compensation pursuant to Subsection 1.06(a)(i) of this Agreement and no further obligation to continue Executive's health, life and disability insurance benefits pursuant to Subsection 1.06(a)(iv) of this Agreement.

3.05 - Reasonableness of Restrictions. Executive and HRB 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 shall not be affected thereby and the provision found invalid, illegal or otherwise unenforceable or unreasonable shall be considered by HRB 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, shall 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 HRB 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 HRB and Executive concerning the subject matter hereof. No modification, amendment, termination or waiver of this Agreement shall be binding unless in writing and signed by Executive and a duly authorized officer of HRB. Failure of HRB, Block or Executive to insist upon strict compliance with any of the terms, covenants or conditions hereof shall not be deemed a waiver of such terms, covenants and conditions.

4.03 - Specific Performance by Executive. The parties acknowledge that money damages alone will not adequately compensate HRB 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 shall be entitled to injunctive relief compelling specific performance of (or other compliance with) the terms hereof.

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4.04 - Successors and Assigns. This Agreement shall be binding upon Executive and the heirs, executors, assigns and administrators of Executive or his estate and property and shall inure to the benefit of HRB, Block and their successors and assigns. Executive may not assign or transfer to others the obligation to perform Executive's duties hereunder. Executive's estate, heirs, successors, representatives, assigns, conservators and/or trustees may seek enforcement, on behalf of Executive or his estate, of the obligations outlined in Section 1.06 of this Agreement.

4.05 - Withholding Taxes. From any payments due hereunder to Executive from HRB, there shall be withheld amounts reasonably believed by HRB 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 HRB. This Section 4.05 shall not affect HRB's obligation to "gross up" any relocation benefits paid to Executive pursuant to Subsection 1.03(e)(iii).

4.06 - Indemnification. (a) To the fullest extent permitted by

law and Block's Bylaws, HRB hereby indemnifies during and after the period of Executive's employment hereunder the Executive from and against all loss, costs, damages and expenses including, without limitation, legal expenses of counsel selected by HRB to represent the interests of Executive (which expenses HRB 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 HRB or Block or serving in such capacity for another corporation at the request of HRB or Block. Notwithstanding the foregoing, the indemnification provided in this Section 4.06 shall 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.

(b) In the event that Executive and HRB mutually agree that Executive has a valid claim or cause of action against a former employer to secure deferred compensation, awards or other benefits from such former employer, HRB shall reimburse Executive for any attorneys' fees, expenses and other costs incurred by Executive in his efforts to secure such benefits. Any net recovery (i.e., judgment, award or settlement amount paid to Executive by such former employer, less any attorneys' fees, expenses, federal, state and local income taxes and other costs not reimbursed by HRB) by Executive arising from such claim shall be remitted by Executive to HRB.

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(c) In the event that a former employer makes a claim against Executive arising out of or relating to its employment of Executive or the termination of such employment, Executive may, in his sole discretion, assert a counterclaim against the former employer seeking deferred compensation, awards or other benefits, with the understanding that any award to Executive, net of adverse awards, attorneys' fees, federal, state and local income taxes, costs and expenses, will be remitted by Executive to HRB.

4.07 - Notices. Notices hereunder shall be deemed delivered five days following deposit thereof in the United States mails (postage prepaid) addressed to Executive at: 240 Central Park South, Suite 23B, New York, New York 10019, with a copy to William J. Egan, Esq., 150 Edina Executive Plaza, 5200 Willson Road, Edina, Minnesota 55424; and to HRB at: 4400 Main Street, Kansas City, Missouri 64111; Attn: Mark A. Ernst, with a copy to James H. Ingraham, Esq., H&R Block, Inc., 4400 Main Street, Kansas City, Missouri 64111; or to such other address and/or person designated by either party in writing to the other party.

4.08 - 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: 9-7-99

/s/ Jeffery W. Yabuki

Jeffery W. Yabuki

Accepted and Agreed:

HRB MANAGEMENT, INC.,
a Missouri corporation

By: /s/ Mark A. Ernst

Mark A. Ernst
Executive Vice President

Dated: 7 Sept 99

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT ("Agreement") is entered into as of the 26th day of January 2000, by and between HRB MANAGEMENT, INC., a Missouri corporation ("HRB") and Frank J. Cotroneo ("Executive").

ARTICLE ONE

EMPLOYMENT

1.01 - Agreement as to Employment. Effective February 21, 2000 or an earlier date as agreed upon by both parties (the "Employment Date"), HRB hereby employs Executive as Chief Financial Officer of H&R BLOCK, INC., a Missouri corporation ("Block") and the indirect parent corporation of HRB, and Executive hereby accepts such employment by HRB, subject to the terms of this Agreement. Subject to the terms of Section 1.06 of this Agreement, 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 shall 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. Any termination of this Agreement shall not be effective as to those portions of this Agreement which, by their express terms as set forth below, require performance by either party following termination of this Agreement.

1.02 - Duties.

(a) Executive is employed by HRB to serve as the Chief Financial Officer and Senior Vice President of Block subject to the authority and direction of Block's Board of Directors (the "Board"), the Chief Executive Officer of Block, and the Chief Operating Officer of Block. Subject to the foregoing, the Executive shall have such authority and responsibility and duties as are normally associated with the position of Chief Financial Officer.

(b) So long as he is employed under this Agreement, Executive agrees to devote his full business time and efforts exclusively on behalf of HRB and Block and to competently and diligently discharge his duties hereunder. Executive shall not be prohibited from engaging in such personal, charitable, or other nonemployment activities as do not interfere with his full-time employment hereunder and which do not violate the other provisions of this Agreement. Executive shall comply fully with all reasonable policies of HRB and Block as are from time to time in effect and applicable to his position.

(c) Except for the normal travel requirements associated with Executive's position, Executive shall perform his duties in Kansas City, Missouri; Kansas City, Kansas; and the surrounding suburbs (collectively the "Greater Kansas City Area").

1.03 - Compensation.

(a) Signing Bonus. HRB shall pay to Executive a \$250,000 bonus on the Employment Date. If Executive voluntarily terminates his employment with HRB prior to the expiration of six months after the Employment Date, other than for "good reason" or following a "Change of Control" (each as defined below), Executive shall reimburse HRB the \$250,000 on or before the 30th day after the effective date of such termination.

(b) Base Salary. HRB shall pay to Executive a gross salary at

an annual rate of \$350,000 ("Base Salary"), payable semimonthly or at any other pay periods as HRB may use for its other executive employees. The Base Salary shall be reviewed for adjustment by the Board or appropriate committee thereof no less often than annually during the term of Executive's employment hereunder and, if adjusted by the Board, such adjusted amount shall become the "Base Salary" for purposes of this Agreement.

(c) Short-Term Incentive Compensation. As approved by the Compensation Committee of the Board, Executive shall participate in the H&R Block Short-Term Incentive Plan and the discretionary short-term incentive program for fiscal year 2000. At the discretion of the Compensation Committee of the Board, for periods following fiscal year 2000, Executive may participate in such plan and program or any similar short-term incentive compensation plans or programs as may from time to time be approved by the Compensation Committee for senior executives of HRB or Block. Under such Plan and program, the Executive shall have an aggregate target bonus for fiscal year 2000 of \$192,500 and an opportunity to earn 200% of such target bonus. The payment of the actual award under the Plan (80% of target) shall be based upon the performance criteria determined by the Compensation Committee to be applicable to HRB participants for fiscal year 2000. The payment of the actual award under the discretionary program shall be based upon the performance of departments that report to Executive (10% of target) and Executive's individual performance (10%), as determined by the Chief Executive Officer of Block and approved by the Compensation Committee. For purposes of Executive's participation in such Plan for the fiscal year ending April 30, 2000, Executive's actual incentive compensation shall be prorated based upon the number of months during such year that he is actually employed by HRB. Executive must remain employed through April 30, 2000 to receive payments under the Plan and program.

(d) Stock Options. As approved by the Compensation Committee of the Board and the Board itself, Executive shall be granted (i) on the Employment Date a stock option under Block's 1993 Long-Term Executive Compensation Plan (the "1993 Plan") to purchase 20,000 shares of Block's common stock at a 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; to vest and become exercisable as to 40% of the shares covered thereby on the first anniversary of the date of grant, as to an additional 30% of such shares on the second anniversary of the date of grant, and as to the remaining 30% of the shares on the third 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; and (ii) a stock option to purchase a minimum of 20,000 shares of Block's common stock at a price per share equal to its closing price on the New York Stock Exchange on the date in fiscal year 2001 on which options are granted under the 1993 Plan to all or substantially all other senior executive officers of Block and its subsidiaries, such stock option to have terms and conditions consistent with the terms and conditions of options granted to such other senior executive officers except as provided in Section 1.06(a). A registration statement under the Securities Act of 1933 is in effect on the date hereof with respect to (i) the shares that may be transferred to Executive pursuant to the exercise of the stock options under the 1993 Plan and (ii) the Restricted Shares referred to in Section 1.03(e). Block shall use its best efforts to maintain such registration for so long as the stock options and the restrictions on the Restricted Shares remain outstanding. Executive will be allowed to use any "cashless exercise" procedure offered by HRB or Block to other employees of HRB or Block with respect to the exercise of stock options.

(e) Restricted Stock. As approved by the Compensation Committee of the Board and the Board itself, Executive shall be awarded promptly after the Employment Date, 3,000 Restricted Shares of Block's common stock under the 1993 Plan. One-third of the 3,000 shares shall vest, respectively, on each of the first three anniversaries of the Employment Date. 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.

(f) Relocation Benefits.

(i) HRB shall reimburse Executive for reasonable packing, shipping, transportation costs and other expenses incurred by Executive in relocating himself, his family and personal property to the Greater Kansas City Area, in accordance with HRB's Executive Relocation Program.

(ii) To the extent that Executive incurs taxable income related to any relocation benefits paid pursuant to this Agreement, HRB shall pay to Executive such additional amount as is necessary to "gross up" such benefits and cover the anticipated income tax liability resulting from such taxable income.

(iii) If Executive purchases a personal residence in the Greater Kansas City Area, needs a home mortgage loan to purchase such personal residence, and elects to borrow money through one of Block's subsidiaries for such purchase, HRB will provide a 75 basis points interest rate reduction from the normal rate of interest associated with the type of home mortgage loan Executive selects.

1.04 - Business Expenses. HRB shall promptly pay directly, or reimburse Executive for, all business expenses, to the extent such expenses are paid or incurred by Executive

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during the term hereof in accordance with Block policy in effect from time to time and to the extent such expenses are reasonable and necessary to the conduct by Executive of Block's business.

1.05 - Fringe Benefits. During the term of Executive's employment hereunder, HRB shall make available to Executive such insurance, sick leave, deferred compensation, short-term incentive compensation, bonuses, stock options (also referred to in Subsection 1.03(d) above), retirement, vacation, and other like benefits as are approved by the Board or the Compensation Committee thereof and provided from time to time to other senior executives of HRB, Block, or Block's other subsidiaries.

1.06 - Termination of Employment.

(a) Termination Due to a Change of Control or Without Cause.

(i) If Executive terminates Executive's employment under this Agreement for "good reason" or during the 180-day period following the date of the occurrence of a "Change of Control," or if HRB terminates Executive's employment under this Agreement for any reason other than for "cause" as defined below, then, upon any such termination of Executive's employment, (A) HRB shall pay to Executive compensation at an annual rate equal to the sum of (I) the annual rate of Base Salary in effect upon such termination, and (II) the aggregate short-term incentive compensation (under the H&R Block Short-Term Incentive Plan and any discretionary incentive program) paid by HRB to Executive for the last fiscal year completed before the fiscal year in which the termination of employment occurs (or, if such termination occurs prior to the end of the fiscal year in which the Employment Date occurs, the amount of actual aggregate short-term incentive compensation to which Executive would have been entitled (with any discretionary incentive compensation calculated at target) had Executive remained employed through the last day of such fiscal year), as determined on an annualized basis (if the short-term incentive compensation for the preceding fiscal year or the initial fiscal year of employment hereunder is computed on a prorated basis), such compensation to be paid throughout the one-year period following such

termination at such periodic intervals as Base Salary would have been made had Executive remained employed by HRB hereunder; (B) any portion of any option to purchase shares of Block common stock granted pursuant to Subsections 1.03(d) or 1.05 of this Agreement and held by Executive at the time of such termination of employment that is not yet vested in accordance with its terms shall fully vest upon the date of such termination of employment, and shall be exercisable for a period of three months after such date of termination of employment; (C) any Restricted Shares granted pursuant to Subsection 1.03(e) of this Agreement and held by Executive at the time of such termination of employment that are not yet vested (meaning the Shares are still subject to restrictions) shall fully vest upon the date of such termination of employment, and all restrictions on any Restricted Shares so vested shall terminate; and (D) HRB shall, during the one-year period following such termination, continue Executive's health, basic life, and disability insurance benefits (such health insurance benefits to be provided by the payment by HRB (whether

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directly or by reimbursement) of Executive's premiums/contributions due as a result of Executive selecting continuation coverage (COBRA) under the plans providing such benefits) but only to the extent Executive does not obtain similar benefits paid for by a third party after such termination.

(ii) For the purpose of this subsection, "good reason" shall mean:

(A) Executive is made subject to the authority and direction of any person other than the Chief Executive Officer of Block, the Board, and Mark A. Ernst as Chief Operating Officer and/or President (a "Subordination Event"). If a Subordination Event occurs, Executive shall have 6 months from the date he has actual knowledge of such Subordination Event to terminate his employment for good cause for this reason. If Executive does not terminate his employment for this reason within such 6 month period, Executive waives his right to terminate his employment by reason of such Subordination Event;

(B) Any material diminution in Executive's duties, responsibilities, or authority as set forth in this Agreement; and

(C) Any other material breach of this Agreement by HRB which is not remedied by HRB within a reasonable period of time not to exceed 30 days after HRB's receipt of written notice of the breach from Executive.

To the extent that this Agreement or any agreement referred to herein imposes an obligation on Block or otherwise requires that Block take (or refrain from taking) any action, any material breach of such obligation or requirement by Block shall be treated as a material breach of this Agreement by HRB.

(iii) For the purpose of this subsection, a "Change of Control" shall mean:

(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,

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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 (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) shall 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) approval by the shareholders of Block of (I) a reorganization, merger or consolidation 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, (II) a complete liquidation or dissolution of Block, voluntary or involuntary, or (III) the sale or other disposition of all or substantially all of the assets of Block.

(iv) For the purpose of this subsection, "cause" shall mean any one or more of the following grounds:

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

(B) 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

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

(D) for any reason (or no reason) at any time after the last day of Block's fiscal year during which Executive attains normal retirement age under

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Block's benefit plans; or

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

Provided, however, that Executive shall receive not less than 25 days' advance notice of any termination for cause by reason of a ground or grounds described in paragraphs (A) or (B), and shall have the opportunity to meet with the Chief Executive Officer to discuss whether there are grounds for termination for cause.

(b) Termination Due to Mutual Agreement. The parties may terminate Executive's employment under this Agreement at any time by mutual written agreement.

(c) No Further Obligations. Upon termination of Executive's employment under this Agreement, HRB shall have no further obligations under this Agreement and no further payments of Base Salary or other compensation or benefits shall be payable by HRB to Executive, except (i) as set forth in this Section 1.06, (ii) as required by the express terms of any written benefit plans or written arrangements maintained by HRB and applicable to Executive at the time of such termination of Executive's employment, (iii) as may be required by law, or (iv) as may be mutually agreed upon between the parties in a negotiated Employment Agreement Termination package.

ARTICLE TWO

CONFIDENTIALITY

2.01 - Background and Relationship of Parties. The parties 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 HRB, Executive will be expected to have access to all information of value to HRB 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, 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 shall not include any portions of such information which are now or hereafter made 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 shall be the sole property of Block (or the applicable subsidiary of Block) and its assigns, and Block (or the applicable subsidiary of Block) shall be 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, 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 HRB or an officer of Block or as may be required by law or the order of any court or governmental authority. Except as otherwise provided in Article Three of this Agreement, the foregoing shall not preclude Executive, after the termination of his employment under this Agreement, from contacting or doing business with any supplier, consultant, or other person with whom he became acquainted during his employment hereunder.

(b) In the event of the termination of Executive's employment by HRB, Executive shall promptly deliver to HRB all copies of all documents, notes, drawings, specifications, documentation, data, and other materials of any nature belonging to Block or any subsidiary of Block and obtained during the course of Executive's employment with HRB. 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; NO CONFLICTS; NONCOMPETITION

3.01 - General. The parties hereto acknowledge that, during the course of Executive's employment by HRB, Executive shall have access to information valuable to HRB and Block concerning the key 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 HRB, 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.

3.02 - Non-Hiring. During the period of Executive's employment hereunder and

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during the time Executive is receiving payments hereunder and for a period of one year after the later of: termination by HRB or Executive of such employment or cessation of such payments, the Executive will not knowingly recruit, solicit, or hire any individual who is employed by Block or any of its subsidiaries at any time during the six-month period ending with the date of termination of Executive's employment hereunder, or otherwise induce any such employee to leave the employment of Block (or the applicable employer-subsidiary 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.

3.03 - No Conflicts. Executive represents in good faith that, to the best of his 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 with him to HRB or Block nor will Executive use in the performance of employment responsibilities at HRB 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 shall fulfill all such obligations during his employment with HRB.

3.04 - Non-Competition.

(a) During any period of Executive's employment with HRB, Executive shall not engage in, or own or control any interest in (except as a passive investor in publicly-held companies, holding less than one percent of its outstanding securities), or act as an officer, director, or employee of, or consultant, advisor or lender to, any firm, corporation, institution, or business which engages in any line of business which is competitive with any line of business of Block or any of its subsidiaries (or which Block or any subsidiary is then engaged in evaluating or developing).

(b) During the one-year period immediately following the termination of Executive's employment hereunder by HRB or Executive, Executive will not own or control any interest in (except as a passive investor in publicly-held companies, holding less than one percent of its outstanding equity securities) or act as an officer, director, or employee of, or consultant, advisor, or lender to, any firm, corporation, institution, or business which engages in any line of business which is competitive with any line of business of Block or any of its subsidiaries at the time Executive's employment terminates.

(c) For purposes of subsection 3.04(b), as to Block, the term "line of business" shall not include any line of business the revenues of which constituted less than 25% of the consolidated revenues of Block for the fiscal year of Block completed on, or most recently completed prior to, the effective date of the termination of Executive's employment hereunder; and, as to any corporation, firm, institution, or business with which Executive proposes to become associated, as

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set forth in said subsection 3.04(b), any line of business which constituted less than 25% of the consolidated revenues of such corporation, firm, institution, or business. It is further agreed that, on the date hereof, the lines of business of Block (as determined without regard to the 25% of revenue requirement) consist of: tax return preparation and related services (to which is attributable more than 75% of Block's consolidated gross revenues for its fiscal year ended April 30, 1999); home mortgage origination and syndication; discount securities brokerage and related financial advisory services for individuals; tax return preparation and other personal productivity computer software and electronic income tax return preparation; and accounting and related consulting services.

(d) Section 3.04(b) shall not apply following any termination of Executive's employment hereunder by HRB for cause,

3.05 - Reasonableness of Restrictions. Executive and HRB 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 shall not be affected thereby and the provision found invalid, illegal, or otherwise unenforceable or unreasonable shall be considered by HRB 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, shall 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 HRB 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 HRB and Executive concerning the subject matter hereof. No modification, amendment, termination, or waiver of this Agreement shall be binding unless in writing and signed by Executive and a duly

authorized officer of HRB. Failure of HRB, Block or Executive to insist upon strict compliance with any of the terms, covenants, or conditions hereof shall not be deemed a waiver of such terms, covenants, and conditions.

4.03 - Specific Performance by Executive. The parties acknowledge that money damages alone will not adequately compensate HRB 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 shall be entitled to injunctive relief compelling specific

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performance of (or other compliance with) the terms hereof.

4.04 - Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of Executive and the heirs, executors, assigns and administrators of Executive or his estate and property and shall inure to the benefit of HRB, Block and their successors and assigns. Executive may not assign or transfer to others the obligation to perform Executive's duties hereunder.

4.05 - Withholding Taxes. From any payments due hereunder to Executive from HRB, there shall be withheld amounts required to be withheld to satisfy liabilities for federal, state, and local taxes and other charges and customary withholdings to which Executive consents. Executive remains primarily liable to such authorities for such taxes and charges to the extent not actually paid by HRB. This Section 4.05 shall not affect HRB's obligation to "gross up" any relocation benefits paid to Executive pursuant to Subsection 1.03(f)(ii).

4.06 - Indemnification. To the fullest extent permitted by law and Block's Bylaws, HRB hereby indemnifies during and after the period of Executive's employment hereunder the Executive from and against all loss, costs, damages, and expenses including, without limitation, legal expenses of counsel selected by HRB to represent the interests of Executive (which expenses HRB 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 HRB or Block or serving in such capacity for another corporation at the request of HRB or Block. Notwithstanding the foregoing, the indemnification provided in this Section 4.06 shall 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 - Notices. Notices hereunder shall be deemed delivered five days following deposit thereof in the United States mails (registered or certified mail, return receipt requested and postage prepaid) addressed to Executive at: 72 Washington Post Drive, Wilton, CT 06897, with a copy to David E. Kahen, Esq., Roberts & Holland LLP, 825 Eighth Avenue, 37th Floor, New York, New York, 10019-7416; and to HRB at: 4400 Main Street, Kansas City, Missouri 64111; Attn: Mark A. Ernst, with a copy to James H. Ingraham, Esq., H&R Block, Inc., 4400 Main Street, Kansas City, Missouri 64111; or to such other address and/or person designated by either party in writing and in the same manner to the other party.

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

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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: 1/27/00

/s/ Frank J. Cotroneo

Frank J. Cotroneo

Accepted and Agreed:

HRB MANAGEMENT, INC.,
a Missouri corporation

By: /s/ Mark A. Ernst

Mark A. Ernst, President

Dated: 26 JAN 00

H&R BLOCK, INC.,
A Missouri Corporation
(as to section 1.03(c) with respect to Fiscal Year 2000 only, and sections
1.03(d), 1.03(e), and 1.05)

By: /s/ Mark A. Ernst

Mark A. Ernst, President

Dated: 26 JAN 00

<ARTICLE> 5

<LEGEND>

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED BALANCE SHEETS AND THE CONSOLIDATED STATEMENTS OF OPERATIONS AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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<F1>PP&E BALANCE IS NET OF ACCUMULATED DEPRECIATION AND AMORTIZATION.

</FN>