

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED OCTOBER 31, 1999

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 No

The number of shares outstanding of the registrant's Common Stock, without par value, at December 1, 1999 was 98,336,052 shares.

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

ASSETS	OCTOBER 31, 1999 ----	APRIL 30, 1999 ----
	(UNAUDITED)	(AUDITED)
CURRENT ASSETS		
Cash and cash equivalents	\$ 168,182	\$ 193,240
Marketable securities	43,831	56,881
Receivables, less allowance for doubtful accounts of \$73,608 and \$61,872	727,738	743,301
Prepaid expenses and other current assets	169,198	94,000
	-----	-----
TOTAL CURRENT ASSETS	1,108,949	1,087,422
INVESTMENTS AND OTHER ASSETS		
Investments in marketable securities	218,103	170,528
Excess of cost over fair value of net tangible assets acquired, net of amortization	659,166	405,534
Other	151,602	132,470
	-----	-----
	1,028,871	708,532
PROPERTY AND EQUIPMENT, at cost less accumulated depreciation and amortization		
	135,695	114,222
	-----	-----
	\$ 2,273,515	\$ 1,910,176
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Notes payable	\$ 625,666	\$ 71,939
Accounts payable, accrued expenses and deposits	108,314	168,641
Accrued salaries, wages and payroll taxes	24,708	161,590
Accrued taxes on earnings	53,162	151,659
Current portion of long-term debt	56,358	-
	-----	-----
TOTAL CURRENT LIABILITIES	868,208	553,829
LONG-TERM DEBT	352,598	249,725
OTHER NONCURRENT LIABILITIES	104,051	44,635
STOCKHOLDERS' EQUITY		
Common stock, no par, stated value \$.01 per share	1,089	1,089
Additional paid-in capital	419,411	420,658
Retained earnings	997,534	1,130,909
Accumulated other comprehensive income (loss)	(16,313)	(23,400)
	-----	-----
	1,401,721	1,529,256
Less cost of 10,937,737 and 11,343,608 shares of common stock in treasury	453,063	467,269

-----	-----
948,658	1,061,987
-----	-----
\$ 2,273,515	\$ 1,910,176
=====	=====

See Notes to Consolidated Financial Statements

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

	THREE MONTHS ENDED	
	OCTOBER 31,	
	1999	1998
	-----	-----
REVENUES		
Service revenues	\$ 152,699	\$ 55,922
Product revenues	50,049	23,154
Royalties	3,210	2,995
Other	3,988	3,542
	-----	-----
	209,946	85,613
	-----	-----
OPERATING EXPENSES		
Employee compensation and benefits	118,306	48,995
Occupancy and equipment	59,553	41,642
Interest	23,344	15,508
Marketing and advertising	14,635	8,481
Supplies, freight and postage	8,699	5,546
Other	60,203	25,336
	-----	-----
	284,740	145,508
	-----	-----
Operating loss	(74,794)	(59,895)
OTHER INCOME		
Investment income, net	2,402	9,646
Other, net	235	-
	-----	-----
	2,637	9,646
Loss from continuing operations before income tax benefit	(72,157)	(50,249)
Income tax benefit	(27,420)	(19,094)
	-----	-----
Net loss from continuing operations	(44,737)	(31,155)
Net loss from discontinued operations (less applicable income tax benefit of (\$11))	-	(18)
	-----	-----
Net loss	\$ (44,737)	\$ (31,173)
	=====	=====
Weighted average number of common shares outstanding	97,814	99,122
	=====	=====
Basic and diluted net loss per share from continuing operations	\$ (.46)	\$ (.31)
	=====	=====
Basic and diluted net loss per share	\$ (.46)	\$ (.31)
	=====	=====
Dividends per share	\$.275	\$.25

See Notes to Consolidated Financial Statements

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

	SIX MONTHS ENDED	
	OCTOBER 31,	
	1999	1998
	----	----
REVENUES		
Service revenues	\$ 226,202	\$ 95,310
Product revenues	94,241	51,796
Royalties	4,140	4,062
Other	6,923	5,018
	-----	-----
	331,506	156,186
	-----	-----
OPERATING EXPENSES		
Employee compensation and benefits	193,658	91,993
Occupancy and equipment	110,599	82,229
Interest	34,818	30,200
Marketing and advertising	19,855	12,264
Supplies, freight and postage	12,891	8,614
Other	96,942	47,446
	-----	-----
	468,763	272,746
	-----	-----
Operating loss	(137,257)	(116,560)
OTHER INCOME		
Investment income, net	5,053	23,536
Other, net	250	-
	-----	-----
	5,303	23,536
Loss from continuing operations before income tax benefit	(131,954)	(93,024)
Income tax benefit	(50,143)	(35,329)
	-----	-----
Net loss from continuing operations	(81,811)	(57,695)
Net loss from discontinued operations (less applicable income tax benefit of (\$778))	-	(1,217)
	-----	-----
Net loss	\$ (81,811)	\$ (58,912)
	=====	=====
Weighted average number of common shares outstanding	97,764	102,049
	=====	=====
Basic and diluted net loss per share from continuing operations	\$ (.84)	\$ (.57)
	=====	=====
Basic and diluted net loss per share	\$ (.84)	\$ (.58)
	=====	=====
Dividends per share	\$.525	\$.45
	=====	=====

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

	SIX MONTHS ENDED	
	OCTOBER 31,	
	1999	1998
	----	----
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (81,811)	\$ (58,912)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	42,731	26,884
Accretion of acquisition liabilities	3,633	-
Other noncurrent liabilities	2,935	2,457
Changes in:		
Receivables	24,153	(563,792)
Prepaid expenses and other current assets	(69,082)	(50,287)
Accounts payable, accrued expenses and deposits	(47,986)	(28,351)
Accrued salaries, wages and payroll taxes	(136,882)	(84,351)
Accrued taxes on earnings	(98,555)	(294,179)
	-----	-----
NET CASH USED IN OPERATING ACTIVITIES	(360,864)	(1,050,531)
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of marketable securities	(3,987)	(198,969)
Maturities of marketable securities	25,112	564,988
Loan to affiliate	(62,627)	-
Purchases of property and equipment	(21,306)	(14,896)
Excess of cost over fair value of net tangible assets acquired, net of cash acquired	(81,550)	(16,513)
Other, net	(13,958)	(11,024)
	-----	-----
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	(158,316)	323,586
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayments of notes payable	(25,815,955)	(3,277,627)
Proceeds from issuance of notes payable	26,369,682	3,870,614
Dividends paid	(51,564)	(46,248)
Payments to acquire treasury shares	(32,366)	(472,566)
Proceeds from stock options exercised	24,325	59,857
	-----	-----
NET CASH PROVIDED BY FINANCING ACTIVITIES	494,122	134,030
	-----	-----
NET DECREASE IN CASH AND CASH EQUIVALENTS	(25,058)	(592,915)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	193,240	900,856
	-----	-----
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	\$ 168,182	\$ 307,941
	=====	=====
SUPPLEMENTAL CASH FLOW DISCLOSURES:		
Income taxes paid	\$ 48,956	\$ 257,402
Interest paid	38,373	33,524

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

1. The Consolidated Balance Sheet as of October 31, 1999, the Consolidated Statements of Operations for the three and six months ended October 31, 1999 and 1998, and the Consolidated Statements of Cash Flows for the six months ended October 31, 1999 and 1998 have been prepared by the Company, without audit. In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position, results of operations and cash flows at October 31, 1999 and for all periods presented have been made.

Reclassifications have been made to prior year amounts to conform with the current year 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 six-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 Olde Financial Corporation (Olde) for \$887,000 in cash. Olde, based in Detroit, Michigan, offers brokerage and other financial services through Olde's network of approximately 1,200 registered representatives located in 181 branch offices in 35 states. The transaction will be treated as a purchase and Olde's results will be included as of the date of acquisition in the Company's third quarter.
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 will be repaid to the Company as RSM collects 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 additional cash payments due over the next four years of \$148,803 were treated as noncash investing activities in the Consolidated Statement of Cash Flows for the

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six months ended October 31, 1999. 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 20 years.

4. Receivables consist of the following:

October 31,	April 30,
-----	-----
1999	1999

	---- (Unaudited)	---- (Audited)
Mortgage loans held for sale	\$ 586,998	\$ 636,687
Business services accounts receivable and work-in-process	94,776	33,015
Participation in refund anticipation loans	43,147	51,074
Other	76,425	84,397
	-----	-----
	801,346	805,173
Allowance for doubtful accounts	73,608	61,872
	-----	-----
	\$ 727,738	\$ 743,301
	=====	=====

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 for 9,517,209 shares and the conversion of 608 shares of preferred stock to common stock, as they are antidilutive. The weighted average shares outstanding for the six months ended October 31, 1999 decreased to 97,764,000 from 102,049,000 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 six months ended October 31, 1999 and 1998, the Company issued 617,028 and 1,918,558 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 six months ended October 31, 1999. During the six months ended October 31, 1999, the Company acquired 721,800 shares of its common stock at an aggregate cost of \$32,366. During the six months ended October 31, 1998, the Company acquired 11,365,100 shares of its common stock at an aggregate cost of \$472,566.
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

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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 has 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.

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

	October 31, ----- 1999 ---- (Unaudited)	April 30, ----- 1999 ---- (Audited)
Condensed balance sheets:		
Cash and cash equivalents	\$ 41,373	\$ 16,026
Finance receivables, net	596,546	658,882
Other assets	543,783	448,010
	-----	-----
Total assets	\$ 1,181,702	\$ 1,122,918
	=====	=====
Notes payable	\$ 625,666	\$ 71,939
Long-term debt	249,750	249,725
Other liabilities	120,388	636,330
Stockholder's equity	185,898	164,924
	-----	-----
Total liabilities and stockholder's equity	\$ 1,181,702	\$ 1,122,918
	=====	=====

	Three months ended ----- October 31, -----		Six months ended ----- October 31, -----	
	1999 ----	1998 ----	1999 ----	1998 ----
Condensed statements of operations:				
Revenues	\$ 93,106	\$ 53,712	\$ 173,824	\$ 107,227
Earnings from operations	13,549	6,340	25,290	15,454
Net earnings	12,945	2,726	15,136	8,259

10. The Company sells short FNMA mortgage-backed securities to certain broker-dealer counterparties. The position on certain or all of the fixed rate mortgages is closed, on standard Public Securities Association (PSA) settlement dates, when the Company enters into a forward commitment to sell those mortgages or decides to securitize the mortgages. The effectiveness of the hedge is measured by a historical and probable future high correlation of changes in the fair value of the hedging instruments with changes in the value of the hedged

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item. If correlation ceases to exist, hedge accounting is terminated and the gains or losses are recorded in revenues. Deferred gains on the FNMA securities hedging instrument amounted to \$196 at October 31, 1999. The contract value and the market value of this hedging instrument at October 31, 1999 were \$13,980 and \$13,974, respectively. The contract value and market value of the forward commitment at October 31, 1999 were \$155,000 and \$154,599, respectively.

11. The Company's comprehensive income is comprised of net earnings (loss), foreign currency translation adjustments and the change in the net unrealized gain or loss on marketable securities. The components of comprehensive income (loss) during the three and six months ended October 31, 1999 and 1998 were:

	Three months ended ----- October 31, -----		Six months ended ----- October 31, -----	
	1999 ----	1998 ----	1999 ----	1998 ----
Net loss	\$ (44,737)	\$ (31,173)	\$ (81,811)	\$ (58,912)

Change in net unrealized gain (loss) on mkt. securities	4,680	897	5,257	1,832
Change in foreign currency translation adjustments	3,122	(1,503)	1,830	(8,905)
Comprehensive income (loss)	\$ (36,935)	\$ (31,779)	\$ (74,724)	\$ (65,985)

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. 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 and through H&R Block offices. Financial planning and investment advice is offered through H&R Block offices, and stock, bonds, mutual funds and other products and securities are offered through a nationwide network of registered representatives.

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Information concerning the Company's operations by reportable operating segments for the three and six months ended October 31, 1999 and 1998 is as follows:

	Three months ended		Six months ended	
	October 31,		October 31,	
	1999	1998	1999	1998
Revenues:				
U.S. tax operations	\$ 19,723	\$ 18,400	\$ 32,798	\$ 30,579
International tax operations	14,713	11,817	18,781	15,254
Financial services	91,503	52,914	170,957	105,655
Business services	83,167	1,534	107,339	2,864
Unallocated corporate	840	948	1,631	1,834
	\$ 209,946	\$ 85,613	\$ 331,506	\$ 156,186
Earnings (loss) from continuing operations:				
U.S. tax operations	\$ (83,663)	\$ (61,316)	\$ (154,733)	\$ (119,132)
International tax operations	(1,644)	(2,263)	(8,165)	(8,234)
Financial services	20,931	10,442	39,757	23,854
Business services	(2,134)	(105)	(2,319)	(219)
Unallocated corporate	(3,431)	(3,131)	(6,783)	(5,758)
Interest expense on LT debt	(7,042)	(4,438)	(11,480)	(8,881)
	(76,983)	(60,811)	(143,723)	(118,370)
Investment income, net	2,402	9,646	5,053	23,536
Intercompany interest	2,424	916	6,716	1,810
Loss from continuing operations before income tax benefit	\$ (72,157)	\$ (50,249)	\$ (131,954)	\$ (93,024)

October 31,	April 30,
-----	-----
1999	1999
----	----

IDENTIFIABLE ASSETS:

U.S. tax operations	\$	271,575	\$	268,650
International tax operations		39,756		55,684
Financial services		1,129,907		1,038,909
Business services		489,747		146,252
Unallocated corporate		342,530		400,681
		-----		-----
	\$	2,273,515	\$	1,910,176
		=====		=====

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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; YEAR 2000 READINESS OF THE COMPANY AND EXTERNAL PARTIES; 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 \$240.7 million at October 31, 1999 from \$533.6 million at April 30, 1999. The working capital ratio at October 31, 1999 is 1.28 to 1, compared to 1.96 to 1 at April 30, 1999. The decrease in working capital and the working capital ratio is primarily due to increased short-term borrowings to fund mortgage loan receivables which were previously funded with corporate cash and the seasonal nature of the Company's U.S. tax 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.

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The Company maintains seasonal lines of credit to support short-term borrowing facilities in the United States and Canada. The credit limits of these lines can fluctuate 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 \$1.85 billion back-up credit facility through November 1999, subject to renewal. In November 1999, the credit facility was increased to \$1.89 billion through November 2000. An additional credit facility of \$750 million was also added in November 1999, which extends through April 2000, to support commercial paper which will be issued to finance the acquisition of Olde Financial Corporation (Olde). It's the Company's intention to ultimately finance a portion of the acquisition price with the debt.

The Company's capital expenditures, treasury share purchases and dividend payments during the first six months were funded through internally-generated funds.

At October 31, 1999, short-term borrowings used to fund mortgage loans and other programs increased to \$625.7 million from \$71.9 million at April 30, 1999 due mainly to the funding of mortgage loan receivables which were previously funded with corporate cash. For the six months ended October 31, 1999 and 1998, interest expense was \$34.8 million and \$30.2 million, respectively. The increase in interest expense is primarily attributable to interest expense related to the purchase of the non-attest assets of McGladrey & Pullen, LLP. This increase is partially offset by lower interest rates and the funding of a portion of mortgage loans held for sale with internal funds instead of short-term borrowings throughout most of the six-month period.

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. The two-year period expires January 31, 2000. At October 31, 1999, 7.7 million shares had been repurchased under this plan. The Company plans to continue to purchase its shares on the open market in accordance with this authorization, subject to various factors including the price of the stock, availability of excess cash, the ability to maintain financial flexibility, regulatory restrictions, and other investment opportunities available.

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. 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 and work-in-process balances that will be repaid to the Company as RSM collects 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 Olde for \$887.0 million in cash. Olde, based in Detroit, Michigan, offers brokerage and other financial services through Olde's network of approximately 1,200 registered representatives located in 181 branch offices in 35 states. The transaction will be treated as a purchase and Olde's results will be included as of the date of acquisition in the Company's third quarter.

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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 OCTOBER 31, 1999 COMPARED TO
THREE MONTHS ENDED OCTOBER 31, 1998
(AMOUNTS IN THOUSANDS)

	Revenues		Earnings (loss)	
	1999	1998	1999	1998
U.S. tax operations	\$ 19,723	\$ 18,400	\$ (83,663)	\$ (61,316)
International tax operations	14,713	11,817	(1,644)	(2,263)
Financial services	91,503	52,914	20,931	10,442
Business services	83,167	1,534	(2,134)	(105)
Unallocated corporate	840	948	(3,431)	(3,131)
Interest expense on long-term debt	-	-	(7,042)	(4,438)
	<u>\$ 209,946</u>	<u>\$ 85,613</u>	(76,983)	(60,811)
Investment income, net			2,402	9,646
Intercompany interest			2,424	916
			(72,157)	(50,249)
Income tax benefit			(27,420)	(19,094)
Net loss from continuing operations			(44,737)	(31,155)

Net loss from discontinued operations	-	(18)
	-----	-----
Net loss	\$ (44,737)	\$ (31,173)
	=====	=====

Consolidated revenues for the three months ended October 31, 1999 increased 145.2% to \$209.9 million from \$85.6 million reported last year. The increase is primarily due to revenues from Business services of \$83.2 million and revenues from Financial services of \$91.5 million, a 72.9% increase over the prior year.

The consolidated pretax loss from continuing operations for the second quarter of fiscal 2000 increased to \$72.2 million from \$50.2 million in the second quarter of last year. The increase is attributable to the increased loss from U.S. tax operations and lower investment income, which is partially offset by improved results from Financial services.

The net loss from continuing operations was \$44.7 million, or \$.46 per share, compared to \$31.2 million, or \$.31 per share, for the same period last year.

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An analysis of operations by reportable operating segments follows.

U.S. TAX OPERATIONS

Revenues increased 7.2% to \$19.7 million from \$18.4 million last year, resulting primarily from higher tax preparation fees that are attributable to increases in pricing.

The pretax loss increased 36.4% to \$83.7 million from \$61.3 million in the second quarter of last year due to normal operational increases in compensation and benefits, rent and other facilities-related expenses and marketing and advertising expenses. 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. Due to the nature of this segment's business, second quarter operating results are not indicative of expected results for the entire fiscal year.

INTERNATIONAL TAX OPERATIONS

Revenues increased 24.5% to \$14.7 million compared to \$11.8 million in the prior year's second quarter. The increase is attributable to Australian operations. The increase in Australian revenues is due to higher tax preparation fees which is the result of a 15.7% increase in the number of tax returns prepared over the same period last year. Canadian and United Kingdom operations contributed slightly to the increase in revenues.

The pretax loss decreased 27.4% to \$1.6 million from \$2.3 million last year. The decrease is primarily due to the strong start to the Australian tax season. The improved performance from Australia and the United Kingdom was partially offset by an increased loss from Canadian operations due to increased compensation and benefits expenses. Due to the nature of this segment's business, second quarter operating results are not indicative of expected results for the entire fiscal year.

FINANCIAL SERVICES

Revenues increased 72.9% to \$91.5 million from \$52.9 million in the same period last year. The increase is primarily attributable to Option One, which contributed revenues of \$74.5 million for the quarter compared to \$43.6 million last year. Option One's improved performance is attributable to a higher volume of loan sales and increased interest income as a result of higher mortgage loan balances. Option One and Assurance Mortgage originated and sold or securitized \$1.5 billion and \$1.6 billion in loans, respectively, during the second quarter of fiscal 2000, compared to \$837.9 million originated and \$539.6 million sold in the second quarter last year. In addition, the Company's broker-dealer, Birchtree Financial, and Assurance Mortgage, both new this year, contributed to the improved revenues.

Financial services pretax earnings of \$20.9 million improved 100.5% this year

compared to earnings of \$10.4 million during the second quarter of fiscal 1999. The increase is mainly due to Option One, which contributed earnings of \$21.2 million compared to \$10.2 million in the same

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quarter last year. Pretax earnings were somewhat reduced by losses related to the startup of financial services operations that offer financial planning services in the Company's tax offices.

BUSINESS SERVICES

Business services revenues of \$83.2 million increased from \$1.5 million in the prior year due to the acquisition of six regional and one national accounting firm since the second quarter of last year. The pretax loss was \$2.1 million compared to \$105 thousand in the prior year, which includes goodwill amortization of \$5.2 million and \$89 thousand, respectively. Business services was a new reportable operating segment in fiscal 1999 with only one regional accounting firm acquired as of the second quarter last year. In the second quarter of fiscal 2000, there is one national accounting firm, seven regional accounting firms and several smaller market firms included in Business services. Due to the nature of this segment's business, revenues are seasonal, while expenses are relatively fixed throughout the year. Results for the second quarter are not indicative of the expected results for the entire fiscal year.

INVESTMENT INCOME, NET

Net investment income decreased 75.1% to \$2.4 million from \$9.6 million last year. The decrease is due to less funds available for investment resulting from the stock repurchase program and the use of corporate cash to fund mortgage loans held for sale.

UNALLOCATED CORPORATE AND ADMINISTRATIVE

The unallocated corporate and administrative pretax loss for the second quarter increased 9.6% to \$3.4 million from \$3.1 million in the comparable period last year. The increase is a result of increased employee costs, and consulting and accounting expenses.

Interest expense on long-term debt increased from \$4.4 million to \$7.0 million in the current quarter. The increase is attributable to the acquisition of the non-attest assets of McGladrey & Pullen, LLP in August 1999.

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THREE MONTHS ENDED OCTOBER 31, 1999 (SECOND QUARTER) COMPARED TO
THREE MONTHS ENDED JULY 31, 1999 (FIRST QUARTER)
(AMOUNTS IN THOUSANDS)

	Revenues		Earnings (loss)	
	2nd Qtr	1st Qtr	2nd Qtr	1st Qtr
U.S. tax operations	\$ 19,723	\$ 13,075	\$ (83,663)	\$ (71,070)
International tax operations	14,713	4,068	(1,644)	(6,521)
Financial services	91,503	79,454	20,931	18,826
Business services	83,167	24,172	(2,134)	(185)

Unallocated corporate	840	791	(3,431)	(3,352)
Interest expense on long-term debt	-	-	(7,042)	(4,438)
	<u>\$ 209,946</u>	<u>\$ 121,560</u>	(76,983)	(66,740)
Investment income, net			2,402	2,651
Intercompany interest			2,424	4,292
			(72,157)	(59,797)
Income tax benefit			(27,420)	(22,723)
Net loss from continuing operations			(44,737)	(37,074)
Net loss from discontinued operations			-	-
Net loss			<u>\$ (44,737)</u>	<u>\$ (37,074)</u>

Consolidated revenues for the three months ended October 31, 1999 increased 72.7% to \$209.9 million from \$121.6 million reported in the first quarter of fiscal 2000. The increase is due primarily to revenues from Business services, with additional increases in Financial services and International tax operations.

The consolidated pretax loss from continuing operations for the second quarter of fiscal 2000 increased to \$72.2 million from \$59.8 million in the first quarter of this year. The increase is attributable to increased losses from U.S. tax operations.

The net loss from continuing operations was \$44.7 million, or \$.46 per share, compared to \$37.1 million, or \$.38 per share, for the first quarter.

An analysis of operations by reportable operating segments follows.

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U.S. TAX OPERATIONS

Revenues increased 50.8% to \$19.7 million from \$13.1 million in the first quarter, resulting primarily from tuition tax school fees, which contributed \$5.5 million to the increase. Tuition tax school fees are seasonal.

The pretax loss increased 17.7% to \$83.7 million from \$71.1 million in the three months ended July 31, 1999. The increased loss is due to increased marketing and advertising and supplies and compensation and benefits expenses related to tuition tax schools.

INTERNATIONAL TAX OPERATIONS

Revenues increased 261.7% to \$14.7 million compared to first quarter revenues of \$4.1 million. The increase is entirely due to the onset of the tax season in Australia, which contributed \$11.3 million to the increase. The increase was partially offset by a decline in tax preparation and discounted return fees in Canada due to a decrease in the number of returns prepared.

The pretax loss declined 74.8% to \$1.6 million from \$6.5 million in the first quarter. The improved results are attributable to the Australian tax-filing season, which contributed earnings of \$4.6 million compared to a pretax loss of \$1.5 million in the quarter ended July 31, 1999. The improved results were reduced by increased losses in Canada due to increased marketing and advertising expenses.

FINANCIAL SERVICES

Revenues increased 15.2% to \$91.5 million from \$79.5 million in the prior quarter. The increase is due to interest income earned on higher balances of mortgage loans held for sale.

Pretax earnings increased 11.2% to \$20.9 million from \$18.8 million in the three months ended July 31, 1999. The increase is principally due to the timing of loan sales at Companion Mortgage and improved results at the Company's broker-dealer, Birchtree Financial. These increases were partially offset by a decline in results from the Company's other mortgage entities.

BUSINESS SERVICES

Revenues increased 244.1% to \$83.2 million from \$24.2 million in the three months ended July 31, 1999 due almost entirely to the acquisition of the non-attest assets of McGladrey & Pullen, LLP purchased on August 2, 1999. The pretax loss increased to \$2.1 million from \$185 thousand in the first quarter due to increased compensation and benefits expense and the amortization of goodwill which are primarily due to the acquisition of the non-attest assets of McGladrey & Pullen, LLP.

INVESTMENT INCOME, NET

Net investment income decreased 9.4% to \$2.4 million from \$2.7 million in the first quarter of fiscal 2000. The decrease resulted from fewer funds available for investment.

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UNALLOCATED CORPORATE AND ADMINISTRATIVE

The unallocated corporate and administrative pretax loss for the second quarter increased 2.4% to \$3.4 million. The increase is due to lower earnings reported by the Company's captive insurance subsidiary.

Interest expense on long-term debt increased from \$4.4 million to \$7.0 million in the current quarter. The increase is attributable to the acquisition of the non-attest assets of McGladrey & Pullen, LLP in August 1999.

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SIX MONTHS ENDED OCTOBER 31, 1999 COMPARED TO
SIX MONTHS ENDED OCTOBER 31, 1998
(AMOUNTS IN THOUSANDS)

	Revenues		Earnings (loss)	
	1999	1998	1999	1998
U.S. tax operations	\$ 32,798	\$ 30,579	\$ (154,733)	\$ (119,132)
International tax operations	18,781	15,254	(8,165)	(8,234)

Financial services	170,957	105,655	39,757	23,854
Business services	107,339	2,864	(2,319)	(219)
Unallocated corporate	1,631	1,834	(6,783)	(5,758)
Interest expense on long-term debt	-	-	(11,480)	(8,881)
	-----	-----	-----	-----
	\$ 331,506	\$ 156,186	(143,723)	(118,370)
	=====	=====		
Investment income, net			5,053	23,536
Intercompany interest			6,716	1,810
			-----	-----
			(131,954)	(93,024)
Income tax benefit			(50,143)	(35,329)
			-----	-----
Net loss from continuing operations			(81,811)	(57,695)
Net loss from discontinued operations			-	(1,217)
			-----	-----
Net loss			\$ (81,811)	\$ (58,912)
			=====	=====

Consolidated revenues for the six months ended October 31, 1999 increased 112.3% to \$331.5 million from \$156.2 million reported last year. The increase is primarily due to revenues from Business and Financial services contributing increases of \$104.5 million and \$65.3 million, respectively.

The consolidated pretax loss from continuing operations for the first six months of fiscal 2000 increased to \$132.0 million from \$93.0 million last year. The increase is attributable to increased losses from U.S. tax operations and lower investment income. The increased loss was partially offset by increased earnings from Financial services.

The net loss from continuing operations was \$81.8 million, or \$.84 per share, compared to \$57.7 million, or \$.57 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 7.3% to \$32.8 million from \$30.6 million last year, resulting primarily from higher tax preparation fees, which is attributable to increases in pricing.

The pretax loss increased 29.9% to \$154.7 million from \$119.1 million in the comparable period last year due to normal operational increases in compensation, rent and other facility-related expenses and consulting expenses. 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. Due to the nature of this segment's business, the six-month operating results are not indicative of expected results for the entire fiscal year.

INTERNATIONAL TAX OPERATIONS

Revenues increased 23.1% to \$18.8 million compared to \$15.3 million the prior year. The increase is primarily attributable to Australian operations. The increase in Australian revenues is due to higher tax preparation fees which is the result of a 7.7% increase in the number of tax returns prepared over the same period last year. Also contributing to the increase in revenues were higher tax preparation fees in Canada and the United Kingdom.

The pretax loss decreased .8% to \$8.2 million compared to last year. The

decrease is due to improved results in Australia and the United Kingdom that was almost entirely offset by normal operational increased losses from Canadian operations. Due to the nature of this segment's business, the six-month operating results are not indicative of expected results for the entire fiscal year.

FINANCIAL SERVICES

Revenues increased 61.8% to \$171.0 million from \$105.7 million in the same period last year. The increase is essentially attributable to Option One, which contributed revenues of \$139.9 million for the six months ended October 31, 1999 compared to \$87.9 million for the same period last year. Option One and Assurance Mortgage originated and sold or securitized \$2.8 billion in loans during the first six months of fiscal 2000, compared to \$1.6 billion originated and \$1.2 billion sold in the same period last year. Assurance Mortgage and the Company's broker-dealer, Birchtree Financial, both new this year, contributed to the improved revenues.

Pretax earnings increased 66.7% to \$39.8 million from \$23.9 million in the prior year. The increase is primarily due to Option One, which contributed earnings of \$42.6 million compared to earnings of \$24.2 million last year. Earnings were reduced by losses from the Company's startup of its financial services operations and its broker-dealer, Birchtree Financial.

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BUSINESS SERVICES

Business services contributed revenues of \$107.3 million compared to \$2.9 million for the six months ended October 31, 1998. The pretax loss was \$2.3 million compared to \$219 thousand for the same period last year, which includes goodwill amortization of \$7.0 million and \$161 thousand, respectively. Business services was a new reportable operating segment in fiscal 1999 with only one regional accounting firm acquired during the six month period last year. However, in the six months results of fiscal 2000, there is one national accounting firm, seven regional accounting firms and several smaller market firms included in Business services. Due to the nature of this segment's business, revenues are seasonal, while expenses are relatively fixed throughout the year. Results for the six months are not indicative of the expected results for the entire fiscal year.

INVESTMENT INCOME, NET

Net investment income decreased 78.5% to \$5.1 million from \$23.5 million last year. The decrease is due to fewer funds available for investment resulting from the stock repurchase program and the use of corporate cash to fund mortgage loans held for sale.

UNALLOCATED CORPORATE AND ADMINISTRATIVE

The unallocated corporate and administrative pretax loss for the six months increased 17.8% to \$6.8 million from \$5.8 million in the comparable period last year. The increase is a result of higher employee costs and accounting and consulting expenses.

Interest expense on long-term debt increased to \$11.5 million from \$8.9 million in the six months ended October 31, 1998. The increase is attributable to the acquisition of the non-attest assets of McGladrey & Pullen, LLP in August 1999.

OTHER ISSUES

YEAR 2000 READINESS DISCLOSURE

The Company has established a program to identify, prioritize, evaluate and mitigate potential Year 2000 related issues. The Company has identified nine mission critical business functions (e.g. U.S. tax preparation services, wholesale loan services, etc.) and 28 non-mission critical business functions (e.g. Kiplinger TaxCut(R) software, Australian tax operations, etc.). Within

each of the business functions, key information technology (IT) and non-IT systems have been inventoried and assessed for compliance and detailed plans are in place for required system modifications or replacements. Currently remediation projects are at different phases of completion. One hundred and thirty-eight remediation projects, including both IT and non-IT systems, were identified within the nine mission critical business functions. Of these projects, 130 are complete and successfully tested, two are in the testing phase and six are still in progress. All projects are scheduled to be completed by December 31, 1999.

Certain applications relating to Canadian operations are still in progress and will be tested in December 1999. Contingency plans are in place with respect to these applications. These applications are not material to the overall operations of the Company but were identified within

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the nine mission critical business functions. Failure of some or all of these systems would not materially affect the Company's results of operations and financial position.

The Company has initiated communications and surveyed state, Federal and foreign governments and suppliers with which it interacts to determine their plans for addressing Year 2000 issues. The Company is relying on their responses to determine if key third parties will be Year 2000 compliant. One of the Company's key third parties is the Internal Revenue Service (IRS). The Company has successfully conducted Year 2000 testing with the IRS, which consisted of confirmation of receipt of electronically filed Year 2000 returns and verbal communication from the IRS that they had completed Year 2000 testing on their systems that would process the returns. The Company continues to communicate frequently with the IRS regarding its Year 2000 readiness. The Company has also completed a survey and inventory of its tax franchisees. Some readiness issues were identified in this process and the Company has consulted with its franchisees on their remediation programs to help mitigate their risk. The Company has obtained assurances from substantially all of its franchisees of Year 2000 readiness. The Company will continue to monitor its third party relationships for Year 2000 issues.

Costs associated with the Year 2000 issue are being expensed as incurred. Total costs are currently estimated at \$3.9 million, with approximately \$3.6 million incurred through October 31, 1999. The remaining costs to complete represent the cost of on-going monitoring of the Company's continued readiness through the end of the fiscal year. The costs associated with the replacement of computer systems, hardware or equipment (currently estimated to be \$15.2 million in total, with \$14.9 million incurred to date), substantially all of which would be capitalized, are not included in the above estimates. All costs related to the Year 2000 issue are being funded through internally-generated funds.

The Company's most likely, worst case potential risk is that the IRS will not be Year 2000 compliant and the Company would not be able to process electronic filings or refund anticipation loans. The Company believes that its competitors will face the same risks.

The Company has identified and developed contingency plans for Year 2000 related interruptions in the event that internal and/or external remediation projects are not completed on a timely basis or that they fail to meet anticipated needs. The Company has focused its contingency plans on accounting functions, communications, distribution channels, facilities, insurance, suppliers, treasury functions and tax operations (which includes franchises, Federal and state governments, IRS and electronic filing). In addition, disaster recovery plans and business resumption plans have been reviewed and modified for information technology functions. While the Company does not anticipate problems in any of these areas, the Company believes a comprehensive plan includes preparation for continuity of its mission critical processes. The contingency plans have been completed and will continue to be monitored with on-going modifications being made as issues requiring change, if any, are identified.

The Company's Year 2000 program is an on-going process and the estimates of costs, risks and completion dates are based on currently available information

and are subject to change.

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While the Company does not anticipate any major interruptions of its business activities, it can not make any assurances that its systems, the systems of the state, Federal and foreign governments, tax franchisees and suppliers will be Year 2000 compliant and will not interrupt business. While the impact can not be fully determined, the inability of these systems to be ready could result in significant difficulties in processing and completing fundamental transactions. In such event, the Company's results of operations and financial position could be adversely affected in a material manner.

QUANTITATIVE AND QUALITATIVE DISCLOSURES
ABOUT MARKET RISK

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

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PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

CompuServe Corporation (CompuServe), certain current and former officers and directors of CompuServe and the 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 has 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 quarter 2000 Form 10-Q filed by the Company.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

The registrant's Amended and Restated Bylaws, as previously amended ("Bylaws"), were further amended on August 30, 1999, to (a) provide that the chief executive officer of the registrant may call special meetings of the shareholders of the registrant; (b) provide that the chief executive officer of the registrant may preside at meetings of the shareholders in the absence of the chairman of the board; (c) provide that the chief executive officer of the registrant may call special meetings of the board of directors; (d) add the chief executive officer as an officer that may be

elected by the board of directors, if it so desires; (e) designate the chief executive officer as an executive officer of the registrant; (f) provide that the salary and compensation of the chief executive officer must be fixed by the board of directors; (g) provide that the board of directors may delegate to the chief executive officer of the registrant the power to fix the salaries and compensation of the elected officers of the registrant other than the salaries and compensation of the chairman of the board, the vice chairman of the board, the chief executive officer and the president; (h) provide that the chief executive officer of the registrant may fix, increase or decrease the salaries and compensation of appointed officers (other than those elected by the board), agents and employees of the registrant until action is taken with respect thereto by the board of directors; (i) provide that

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the board of directors of the registrant may delegate to the chief executive officer of the registrant authority to hire, discharge, and fix and modify the duties, salary or other compensation of employees of the registrant under his or her jurisdiction, and the power to obtain and retain for the registrant the services of attorneys, accountants and other experts; (j) provide that the board of directors may elect a chief executive officer of the registrant that is not the chairman of the board or the president of the registrant; (k) provide that the chief executive officer shall be vested with such powers, duties, and authority as the board of directors of the registrant may from time to time determine and as may be set forth in the Bylaws; (l) provide that the chief executive officer or the president of the registrant shall preside at all meetings of the board of directors in the absence of the chairman of the board; (m) provide that the chief executive officer may execute all bonds, notes, debentures, mortgages, and other contracts requiring a seal under the seal of the registrant, and may cause the seal to be affixed thereto, and all other instruments for and in the name of the registrant (unless required to be executed by the president and the chief executive officer is not also the president); (n) provide that the chief executive officer, when authorized so to do by the board of directors of the registrant, may execute powers of attorney from, for, and in the name of the corporation; (o) provide that the chief executive officer of the registrant, except as may be otherwise directed by the board of directors, is among the officers of the registrant, one of whom shall attend meetings of shareholders of other corporations to represent the registrant and to vote or take action with respect to shares of any such corporation owned by the registrant; and (p) delete the provision stating that the chief executive officer of the registrant shall, unless otherwise provided by the board of directors, be an ex officio member of all standing board committees.

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

The annual meeting of shareholders of the registrant was held on September 8, 1999. At such meeting, three Class I directors were elected to serve three-year terms. In addition, the resolutions set forth below were submitted to a vote of shareholders. With respect to the election of directors and the adoption of each resolution, the number of votes cast for, against or withheld, and the number of abstentions and broker non-votes were as follows:

Election of Class I Directors

Nominee -----	Votes FOR -----	Votes WITHHELD -----
Henry W. Bloch	85,370,352	533,697
Robert E. Davis	85,371,477	533,572
Frank L. Salizzoni	85,366,325	537,724

Adoption of the 1999 Stock Option Plan for Seasonal Employees:

The following resolution was adopted by a vote of 70,777,193 shares in favor of such resolution, 3,539,650 shares against such resolution,

and 1,653,724 shares abstaining. There were 9,933,482 broker non-votes. The resolution states:

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

Amendment to the 1993 Long-Term Executive Compensation Plan:

The following resolution was adopted by a vote of 52,508,576 shares in favor of such resolution, 22,636,308 shares against such resolution, and 825,683 shares abstaining. There were 9,933,482 broker non-votes. The resolution states:

"RESOLVED, That this Company's 1993 Long-Term Executive Compensation Plan, as previously amended, be further amended by deleting the number 7,000,000 in Section 6 and replacing it with the number 13,000,000, such that, following the amendment, the total number of shares of Common Stock issuable under such Plan may not exceed 13,000,000 shares, subject to adjustments as provided in the Plan."

Appointment of Auditors

The following resolution was adopted by a vote of 83,871,836 shares in favor of such resolution, 1,640,060 shares against such resolution and 392,153 shares abstaining:

"RESOLVED, That the appointment of PricewaterhouseCoopers LLP as the independent auditors for H&R Block, Inc., and its subsidiaries for the year ending April 30, 2000, is hereby ratified, approved and confirmed."

At the close of business on July 9, 1999, the record date for the annual meeting of shareholders, there were 97,706,037 shares of Common Stock of the registrant outstanding and entitled to vote at the meeting. There were 85,904,049 shares represented at the annual meeting of shareholders held on September 8, 1999.

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

a) Exhibits

- 3.1 Amended and Restated Bylaws of the registrant, as amended August 30, 1999.
- 10.1 Stock Purchase Agreement dated August 31, 1999, among Block Financial Corporation, H&R Block, Inc., Olde Financial Corporation, Financial Marketing Services, Inc. and the Shareholders of Olde Financial Corporation and Financial Marketing Services, Inc., filed as Exhibit 10.1 to the Form 8-K, Current Report, dated August 31, 1999, is incorporated herein by reference.

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- 10.2 The H&R Block, Inc. 1993 Long-Term Executive Compensation Plan,

as amended through September 8, 1999.

- 10.3 The H&R Block 1999 Stock Option Plan for Seasonal Employees, as amended September 8, 1999.
- 10.4 Amendment No. 2 to the H&R Block Deferred Compensation Plan for Executives, as Amended and Restated.
- 10.5 Amendment No. 3 to the H&R Block Deferred Compensation Plan for Executives, as Amended and Restated.
- 27 Financial Data Schedule

b) Reports on Form 8-K

A Form 8-K, Current Report, dated August 2, 1999, was filed on August 17, 1999 by the registrant reporting as an "Item 2" the acquisition of substantially all of the non-attest assets of McGladrey & Pullen, LLP on August 2, 1999, and the registrant's issuance of a press release announcing the same. The press release was included as Exhibit 99 to the Form 8-K. No financial statements were filed as a part of the Form 8-K.

A Form 8-K, Current Report, dated August 31, 1999, was filed on September 10, 1999 by the registrant reporting as an "Item 5" the registrant's entry into a Stock Purchase Agreement with Olde Financial Corporation and Financial Marketing Services, Inc. pursuant to which Block Financial Corporation would acquire all of the outstanding common stock of Olde Financial Corporation and Financial Marketing Services. The Agreement and the press release relating to the proposed transaction were included as exhibits to the Form 8-K. No financial statements were filed as a part of the Form 8-K.

A Form 8-K, Current Report, dated December 14, 1999, was filed by the registrant reporting as an "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.

SIGNATURES

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

H&R BLOCK, INC.

(Registrant)

DATE 12/15/99

BY /s/ Ozzie Wenich

Ozzie Wenich
Senior Vice President and
Chief Financial Officer

DATE 12/15/99

BY /s/ Cheryl L. Givens

Cheryl L. Givens
Vice President and Corporate Controller

AMENDED AND RESTATED
BYLAWS
OF
H & R BLOCK, INC.

(As amended through August 30, 1999)

OFFICES

1. OFFICES. The corporation shall maintain a registered office in the State of Missouri, and shall have a resident agent in charge thereof. The location of the registered office and name of the resident agent shall be designated in the Articles of Incorporation, or by resolution of the board of directors, on file in the appropriate offices of the State of Missouri. The corporation may maintain offices at such other places within or without the State of Missouri as the board of directors shall designate.

SEAL

2. SEAL. The corporation shall have a corporate seal inscribed with the name of the corporation and the words "Corporate Seal - Missouri". The form of the seal may be altered at pleasure and shall be used by causing it or a facsimile thereof to be impressed, affixed, reproduced or otherwise used.

SHAREHOLDERS' MEETINGS

3. PLACE OF MEETINGS. All meetings of the shareholders shall be held at the principal office of the corporation in Missouri, except such meetings as the board of directors (to the extent permissible by law) expressly determines shall be held elsewhere, in which case such meetings may be held at such other place or places, within or without the State of Missouri, as the board of directors shall have determined.

4. ANNUAL MEETING. (a) DATE AND TIME. The annual meeting of shareholders shall be held on the first Wednesday in September of each year, if not a legal holiday, and if a legal holiday, then on the first business day following, at 9:00 a.m., or on such other date as the board of directors may specify, when directors shall be elected and such other business transacted as may be properly brought before the meeting.

(b) Business Conducted. At an annual meeting of shareholders, only such business shall be conducted as shall have been properly brought before the meeting. To be properly brought before an annual meeting, business must be specified in the notice of meeting (or any supplement thereto) given by or at the direction of the board, otherwise properly brought before the meeting by or at the direction of the board, or otherwise properly brought before the meeting by a shareholder. In addition to any other applicable requirements, for business to be properly brought before an annual meeting by a shareholder, the shareholder must have given timely notice thereof in writing to the secretary. To be timely, such notice must be delivered to

or mailed and received at the principal executive offices of the corporation at least 45 days before the date in the year of the annual meeting corresponding to the date on which the corporation first mailed its proxy materials for the prior year's annual meeting of shareholders. A shareholder's notice to the secretary shall set forth as to each matter the shareholder proposes to bring before the annual meeting (i) a brief description of the business desired to be brought before the annual meeting and the reasons for conducting such business at the annual meeting, (ii) the name and record address of the shareholder proposing such business, (iii) the class and number of shares of the corporation that are beneficially owned by the shareholder, and (iv) any material interest of the shareholder in such business.

Notwithstanding anything in the bylaws to the contrary, no business

shall be conducted at the annual meeting except in accordance with the procedures set forth in this section 4(b); provided, however, that nothing in this section 4(b) shall be deemed to preclude discussion by any shareholder of any business properly brought before the annual meeting in accordance with said procedure.

The chairman of an annual meeting shall, if the facts warrant, determine and declare to the meeting that business was not properly brought before the meeting in accordance with the provisions of this section 4(b), and if he should so determine, he shall so declare to the meeting and any such business not properly brought before the meeting shall not be transacted.

5. SPECIAL MEETINGS. Special meetings of the shareholders may be called at any time by the chairman of the board, by the chief executive officer or by the president, or at any time upon the written request of a majority of the board of directors, or upon the written request of the holders of not less than 80% of the stock of the corporation entitled to vote in an election of directors. Each call for a special meeting of the shareholders shall state the time, the day, the place and the purpose or purposes of such meeting and shall be in writing, signed by the persons making the same and delivered to the secretary. No business shall be transacted at a special meeting other than such as is included in the purposes stated in the call.

6. CONDUCT OF ANNUAL AND SPECIAL MEETINGS. The chairman of the board, or in his absence the chief executive officer or the president, shall preside as the chairman of the meeting at all meetings of the shareholders. The chairman of the meeting shall be vested with the power and authority to (i) maintain control of and conduct an orderly meeting; (ii) exclude any shareholder from the meeting for failing or refusing to comply with any of the procedural standards or rules or conduct or any reasonable request of the chairman; and (iii) appoint inspectors of elections, prescribing their duties, and administer any oath that may be required under Missouri law.

7. NOTICES. Written or printed notice of each meeting of the shareholders, whether annual or special, stating the place, date and time thereof and in case of a special meeting, the purpose or purposes thereof shall be delivered or mailed to each shareholder entitled to vote thereat, not less than ten nor more than fifty days prior to the meeting, unless, as to a particular matter, other or further notice is required by law, in which case such other or further notice shall be given. Any notice of a shareholders' meeting sent by mail shall be deemed to be delivered when deposited in the United States mail with postage prepaid

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thereon, addressed to the shareholder at his address as it appears on the books of the corporation.

8. WAIVER OF NOTICE. Whenever any notice is required to be given under the provisions of these bylaws, the Articles of Incorporation of the corporation, or of any law, a waiver thereof, if not expressly prohibited by law, in writing signed by the person or persons entitled to such notice, shall be deemed the equivalent to the giving of such notice.

9. QUORUM. Except as otherwise may be provided by law, by the Articles of Incorporation of the corporation or by these bylaws, the holders of a majority of the shares issued and outstanding and entitled to vote thereat, present in person or by proxy, shall be required for and shall constitute a quorum at all meetings of the shareholders for the transaction of business. Every decision of a majority in amount of shares of such quorum shall be valid as a corporate act, except in those specific instances in which a larger vote is required by law or by the Articles of Incorporation. If a quorum be not present at any meeting, the shareholders entitled to vote thereat, present in person or by proxy, shall have power to adjourn the meeting to a specified date not longer than 90 days after such adjournment without notice other than announcement at the meeting, until the requisite amount of voting shares shall be present. At such adjourned meeting at which the requisite amount of voting shares shall be represented any business may be transacted which might have been transacted at the meeting as originally notified.

10. PROXIES. At any meeting of the shareholders, every shareholder having the right to vote shall be entitled to vote in person or by proxy appointed by an instrument in writing subscribed by such shareholder and bearing

a date not more than eleven months prior to said meeting unless said instrument provides that it shall be valid for a longer period.

11. VOTING. Each shareholder shall have one vote for each share of stock having voting power registered in his name on the books of the corporation and except where the transfer books of the corporation shall have been closed or a date shall have been fixed as a record date for the determination of its shareholders entitled to vote, no share of stock shall be voted at any election for directors which shall have been transferred on the books of the corporation within fifty days preceding such election of directors.

Shareholders shall have no right to vote cumulatively for the election of directors.

A shareholder holding stock in a fiduciary capacity shall be entitled to vote the shares so held, and a shareholder whose stock is pledged shall be entitled to vote unless, in the transfer by the pledgor on the books of the corporation, he shall have expressly empowered the pledgee to vote thereon, in which case only the pledgee or his proxy may represent said stock and vote thereon.

12. SHAREHOLDERS' LISTS. A complete list of the shareholders entitled to vote at every election of directors, arranged in alphabetical order, with the address of and the number of voting shares held by each shareholder, shall be prepared by the officer having charge of the stock books of the corporation and for at least ten days prior to the date of the election shall be open at the place where the election is to be held, during the usual hours for business, to the examination of any shareholder and shall be produced and kept open at the place of the election during the whole time thereof to the inspection of any shareholder

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present. The original or duplicate stock ledger shall be the only evidence as to who are shareholders entitled to examine such lists, or the books of the corporation, or to vote in person or by proxy, at such election. Failure to comply with the foregoing shall not affect the validity of any action taken at any such meeting.

13. RECORDS. The corporation shall maintain such books and records as shall be dictated by good business practice and by law. The books and records of the corporation may be kept at any one or more offices of the corporation within or without the State of Missouri, except that the original or duplicate stock ledger containing the names and addresses of the shareholders, and the number of shares held by them, shall be kept at the registered office of the corporation in Missouri. Every shareholder shall have a right to examine, in person, or by agent or attorney, at any reasonable time, for any reasonable purpose, the bylaws, stock register, books of account, and records of the proceedings of the shareholders and directors, and to make copies of or extracts from them.

DIRECTORS

14. NUMBER AND POWERS OF THE BOARD. The property and business of this corporation shall be managed by a board of directors, and the number of directors to constitute the board shall be not less than nine nor more than fifteen, the exact number to be fixed by a resolution adopted by the affirmative vote of a majority of the whole board of directors, but shall be twelve until and unless so fixed. Directors need not be shareholders. In addition to the powers and authorities by these bylaws expressly conferred upon the board of directors, the board may exercise all such powers of the corporation and do or cause to be done all such lawful acts and things as are not prohibited, or required to be exercised or done by the shareholders only.

15. INCUMBENCY OF DIRECTORS. (a) ELECTION AND TERM OF OFFICE. The directors of the corporation shall be divided into three classes: Class I, Class II and Class III. Membership in such classes shall be as nearly equal as possible and any increase or decrease in the number of directors shall be apportioned by the board of directors among the classes to maintain the number of directors in each class as nearly equal as possible. At each annual meeting of shareholders, directors shall be elected to succeed those whose terms then expire and to fill any vacancies and newly created directorships not previously filled by the board. Newly elected directors shall belong to the same class as the directors they succeed or, with respect to newly created directorships, to

the respective classes to which such directorships are assigned by the board of directors. The term of office of each director shall begin immediately after his election and, except as set forth in the Articles of Incorporation as to the terms of office of the initial directors in each class, the directors in each class shall hold office until the third succeeding annual meeting of shareholders after the regular election of directors of that class or until their successors are elected and qualified and subject to prior death, resignation, retirement or removal from office of a director. No decrease in the number of directors constituting the board of directors shall reduce the term of any incumbent director.

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

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16. VACANCIES. Any newly created directorship resulting from an increase in the number of directors, and any vacancy occurring on the board of directors through death, resignation, disqualification, disability or any other cause, may be filled by vote of a majority of the surviving or remaining directors then in office, although less than a quorum, or by a sole remaining director. Any director so elected to fill a vacancy shall hold office for the unexpired portion of the term of the director whose place shall be vacated and until the election and qualification of his successor.

17. MEETINGS OF THE NEWLY ELECTED BOARD OF DIRECTORS - NOTICE. The first meeting of each newly elected board, which shall be deemed the annual meeting of the board, shall be held on the same day as the annual meeting of shareholders, as soon thereafter as practicable, at such time and place, either within or without the State of Missouri, as shall be designated by the president. No notice of such meeting shall be necessary to the continuing or newly elected directors in order legally to constitute the meeting, provided that a majority of the whole board shall be present; or the members of the board may meet at such place and time as shall be fixed by the consent in writing of all of the directors.

18. NOTICE. (a) REGULAR MEETINGS. Regular meetings of the board of directors may be held without notice at such place or places, within or without the State of Missouri, and at such time or times, as the board of directors may from time to time fix by resolution adopted by the whole board. Any business may be transacted at a regular meeting.

(b) SPECIAL MEETINGS. Special meetings of the board of directors may be called by the chairman, the chief executive officer, the president or any two directors. Notice thereof stating the place, date and hour of the meeting shall be given to each director either by mail not less than 48 hours before the date of the meeting, by telephone or telegram on 24 hours' notice, or on such shorter notice as the person or persons calling such meeting may deem necessary or appropriate in the circumstances. The place may be within or without the State of Missouri as designated in the notice. The "call" and the "notice" of any such meeting shall be deemed synonymous.

19. QUORUM. At all meetings of the board of directors a majority of the whole board shall, unless a greater number as to any particular matter is required by statute, by the Articles of Incorporation or by these bylaws, constitute a quorum for the transaction of business, and the act of a majority of the directors present at any meeting at which there is a quorum shall be the act of the board of directors. Less than a quorum may adjourn the meeting successively until a quorum is present, and no notice of adjournment shall be required.

The foregoing provisions relating to a quorum for the transaction of business shall not be affected by the fact that one or more of the directors have or may have interests in any matter to come before a meeting of the board, which interests are or might be adverse to the interests of this corporation. Any such interested director or directors shall at all times be considered as present for the purpose of determining whether or not a quorum exists, provided such director or directors are in attendance and do not waive the right to vote.

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20. NOMINATIONS FOR ELECTION AS DIRECTORS. Only persons who are nominated in accordance with the following procedures shall be eligible for election as directors. Nominations of persons for election to the board of directors may be made at a meeting of shareholders (i) by or at the direction of the board of directors by any nominating committee or person appointed by the board or (ii) by any shareholder of the corporation entitled to vote for the election of directors at the meeting who complies with the notice procedures set forth in this section 20. Such nominations, other than those made by or at the direction of the board, shall be made pursuant to timely notice in writing to the secretary.

To be timely, a shareholder's notice shall be delivered to or mailed and received at the principal executive offices of the corporation not less than 50 days nor more than 75 days prior to the meeting; provided, however, that if fewer than 65 days' notice or prior public disclosure of the date of the meeting is given or made to shareholders, notice by the shareholder to be timely must be received not later than the close of business on the 15th day following the day on which such notice of the date of the meeting was mailed or such public disclosure was made. Such shareholder's notice to the secretary shall set forth (a) as to each person whom the shareholder proposes to nominate for election or reelection as a director, such person's name, age, business address, residence address, and principal occupation or employment, the class and number of shares of capital stock of the corporation that are beneficially owned by such person, and any other information relating to such person that is required to be disclosed in solicitations for proxies for election of directors pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended; and (b) as to the shareholder giving the notice, such shareholder's name and record address and the class and number of shares of capital stock of the corporation that are beneficially owned by such shareholder. The corporation may require any proposed nominee to furnish such other information as may reasonably be required by the corporation to determine the eligibility of such proposed nominee to serve as a director of the corporation. No person shall be eligible for election as a director of the corporation unless nominated in accordance with the procedures set forth herein.

The chairman of the meeting shall, if the facts warrant, determine and declare to the meeting that a nomination was not made in accordance with the foregoing procedure, and if he should so determine, he shall so declare to the meeting and the defective nomination shall be disregarded.

21. DIRECTORS' ACTION WITHOUT MEETING. If all the directors severally or collectively consent in writing to any action to be taken by the directors, such consents shall have the same force and effect as a unanimous vote of the directors at a meeting duly held. The secretary shall file such consents with the minutes of the meetings of the board of directors.

22. WAIVER. Any notice provided or required to be given to the directors may be waived in writing by any of them, whether before, at, or after the time stated therein. Attendance of a director at any meeting shall constitute a waiver of notice of such meeting except where he attends for the express purpose of objecting to the transaction of any business thereat because the meeting is not lawfully called or convened.

23. INDEMNIFICATION OF DIRECTORS AND OFFICERS. The corporation may indemnify any person who was or is a party or is threatened to be made a party to any

threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, other than an action by or in the right of the corporation, by reason of the fact that he is or was a director or officer of the corporation, or is or was serving at the request of the corporation, as a director or officer of another corporation, partnership, joint venture, trust or other enterprise, against expenses, including attorneys' fees, judgments, fines and amounts paid in settlement actually and reasonably incurred by him in connection with such action, suit or proceeding if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful. The termination of any action, suit or proceeding by judgment, order, settlement,

conviction, or upon a plea of nolo contendere or its equivalent, shall not, of itself, create a presumption that the person did not act in good faith and in a manner which he reasonably believed to be in or not opposed to the best interests of the corporation, and, with respect to any criminal action or proceeding, had reasonable cause to believe that his conduct was unlawful.

The corporation may indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the corporation to procure a judgment in its favor by reason of the fact that he is or was a director or officer of the corporation, or is or was serving at the request of the corporation as a director or officer of another corporation, partnership, joint venture, trust or other enterprise against expenses, including attorneys' fees, and amounts paid in settlement actually and reasonably incurred by him in connection with the defense or settlement of the action or suit if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the corporation; except that no indemnification shall be made in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable for negligence or misconduct in the performance of his duty to the corporation unless and only to the extent that the court in which the action or suit was brought determines upon application that, despite the adjudication of liability and in view of all the circumstances of the case, the person is fairly and reasonably entitled to indemnity for such expenses which the court shall deem proper.

To the extent that a director or officer of the corporation has been successful on the merits or otherwise in defense of any action, suit or proceeding referred to in the first two unnumbered paragraphs of this section 23, or in defense of any claim, issue or matter therein, he shall be indemnified against expenses, including attorneys' fees, actually and reasonably incurred by him in connection with the action, suit or proceeding.

Any indemnification under the first two unnumbered paragraphs of this section 23, unless ordered by a court, shall be made by the corporation only as authorized in the specific case upon a determination that indemnification of the director or officer is proper in the circumstances because he has met the applicable standard of conduct set forth in this section 23. The determination shall be made by the board of directors by a majority vote of a quorum consisting of directors who were not parties to the action, suit or proceeding, or if such a quorum is not obtainable, or even if obtainable, a quorum of disinterested directors so directs, by independent legal counsel in a written opinion, or by the shareholders.

Expenses incurred in defending a civil or criminal action, suit or proceeding may be paid by the corporation in advance of the final disposition of the action, suit or proceeding as

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authorized by the board of directors in the specific case upon receipt of an undertaking by or on behalf of the director or officer to repay such amount unless it shall ultimately be determined that he is entitled to be indemnified by the corporation as authorized in this section 23.

The indemnification provided by this section 23 shall not be deemed exclusive of any other rights to which those seeking indemnification may be entitled either under the Articles of Incorporation or bylaws or any agreement, vote of shareholders or disinterested directors or otherwise, both as to action in his official capacity and as to action in another capacity while holding such office, and shall continue as to a person who has ceased to be a director or officer and shall inure to the benefit of the heirs, executors and administrators of such a person.

The corporation shall have the power to give any further indemnity, in addition to the indemnity authorized or contemplated under other subsections of this section 23, to any person who is or was a director or officer or to any person who is or was serving at the request of the corporation as a director or officer of another corporation, partnership, joint venture, trust or other enterprise, provided such further indemnity is either (i) authorized, directed or provided for in the Articles of Incorporation of the corporation or any duly adopted amendment thereof or (ii) authorized, directed or provided for in any bylaw or agreement of the corporation which has been adopted by a vote of the shareholders of the corporation, and provided further that no such indemnity

shall indemnify any person from or on account of such person's conduct which was finally adjudged to have been knowingly fraudulent, deliberately dishonest or willful misconduct. Upon adoption of this bylaw by the shareholders of the corporation, the corporation may enter into indemnification agreements with each director who is in office on the date of such adoption and, by vote of or resolution adopted by a majority of a quorum of disinterested directors, with each director who is thereafter elected a director of the corporation. The corporation may enter into indemnification agreements with each officer of the corporation whom the board of directors, by vote of a majority of a quorum of disinterested directors, authorizes or may, by resolution adopted by a vote of a majority of a quorum of disinterested directors, authorize indemnification of any officer to the same extent as provided in such indemnification agreement, subject to the same exception as provided therein and such additional exception as may be set forth in such resolution. Such indemnification agreements shall be substantially in the form attached as Annex I to the bylaws.

The corporation may purchase and maintain insurance on behalf of any person who is or was a director or officer of the corporation, or is or was serving at the request of the corporation as a director or officer of another corporation, partnership, joint venture, trust or other enterprise against any liability asserted against him and incurred by him in any such capacity, or arising out of his status as such, whether or not the corporation would have the power to indemnify him against such liability under the provisions of this section 23.

For the purpose of this section 23, references to "the corporation" include all constituent corporations absorbed in a consolidation or merger as well as the resulting or surviving corporation so that any person who is or was a director or officer of such a constituent corporation or is or was serving at the request of such constituent corporation as a director or officer of another corporation, partnership, joint venture, trust or other enterprise shall stand in the same position under the provisions of this section 23 with respect to the

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resulting or surviving corporation as he would if he had served the resulting or surviving corporation in the same capacity.

For purposes of this section 23, the term "other enterprise" shall include employee benefit plans; the term "fines" shall include any excise taxes assessed on a person with respect to an employee benefit plan; and the term "serving at the request of the corporation" shall include any service as a director or officer of the corporation which imposes duties on, or involves services by, such director or officer with respect to an employee benefit plan, its participants, or beneficiaries; and a person who acted in good faith and in a manner he reasonably believed to be in the interest of the participants and beneficiaries of an employee benefit plan shall be deemed to have acted in a manner "not opposed to the best interests of the corporation" as referred to in this section 23.

24. INTERESTS OF DIRECTORS. In case the corporation enters into contracts or transacts business with one or more of its directors, or with any firm of which one or more of its directors are members or with any other corporation or association of which one or more of its directors are members, shareholders, directors or officers, such transaction or transactions shall not be invalidated or in any way affected by the fact that such director or directors have or may have interests therein which are or might be adverse to the interests of this corporation; provided that such contract or transaction is entered into in good faith and authorized or ratified on behalf of this corporation by the board of directors or by a person or persons (other than the contracting person) having authority to do so, and if the directors or other person or persons so authorizing or ratifying shall then be aware of the interest of such contracting person. In any case in which any transaction described in this section 24 is under consideration by the board of directors, the board may, upon the affirmative vote of a majority of the whole board, exclude from its presence while its deliberations with respect to such transaction are in progress any director deemed by such majority to have an interest in such transaction.

25. COMMITTEES. (a) EXECUTIVE COMMITTEE. The board of directors may, by resolution or resolutions passed by a majority of the whole board, designate an executive committee, such committee to consist of two or more directors of the corporation, which committee, to the extent provided in said resolution or

resolutions, shall have and may exercise all of the authority of the board of directors in the management of the corporation. The executive committee shall keep regular minutes of its proceedings and the same shall be recorded in the minute book of the corporation. The secretary or an assistant secretary of the corporation may act as secretary for the committee if the committee so requests.

(b) AUDIT COMMITTEE. The corporation shall maintain an audit committee consisting of at least three directors. No member of the audit committee shall be an employee of the corporation. The audit committee shall use reasonable efforts to effect the establishment and maintenance by the corporation of adequate financial reporting and audit procedures. The audit committee shall annually review and confirm management's proposal for the selection of the corporation's independent public accounting firm and, following completion of such firm's audit examination of the corporation's consolidated financial statements, review with such firm and corporation management, such matters in connection with the audit as deemed necessary and desirable by the audit committee. The audit committee shall have such additional duties, responsibilities, functions and powers as may be delegated to it by the board of directors of the corporation. The audit committee shall be

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empowered to retain, at the expense of the corporation, independent expert(s) if it deems this to be necessary.

(c) OTHER COMMITTEES. The board of directors may also, by resolution or resolutions passed by a majority of the whole board, designate other committees, with such persons, powers and duties as it deems appropriate and as are not inconsistent with law.

26. COMPENSATION OF DIRECTORS AND COMMITTEE MEMBERS. By resolution duly adopted by a majority of the board of directors, directors and members shall be entitled to receive reasonable annual compensation for services rendered to the corporation as such, and a fixed sum and expenses of attendance, if any, may be allowed for attendance at each regular or special meeting of the board or committee; provided that nothing herein contained shall be construed to preclude any director or committee member from serving the corporation in any other capacity and receiving compensation therefor.

OFFICERS

27. (a) ELECTED OFFICERS. The following officers of the corporation shall be chosen or appointed by election by the board of directors, and shall be deemed elected officers: a president, a secretary, and a treasurer; also, if the board desires, a chairman of the board, a vice chairman of the board, a chief executive officer, one or more vice presidents, one or more assistant secretaries and one or more assistant treasurers. The chairman of the board, the vice chairman of the board and the chief executive officer shall be deemed executive officers of the corporation, and shall be vested with such powers, duties, and authority as the board of directors may from time to time determine and as may be set forth in these bylaws.

Any two or more of such offices may be held by the same person, except the offices of chairman of the board and vice chairman of the board, president and vice president, and the offices of president and secretary.

An elected officer shall be deemed qualified when he enters upon the duties of the office to which he has been elected and furnishes any bond required by the board; but the board may also require of such person his written acceptance and promise faithfully to discharge the duties of such office.

(b) ELECTION OF OFFICERS. The board of directors at each annual meeting thereof shall elect a president from among their own number. They shall also elect at such time a secretary and a treasurer, who need not be directors. The board then, or from time to time, may elect a chairman of the board, a vice chairman of the board, a chief executive officer and such vice presidents, assistant secretaries and assistant treasurers as it may deem advisable or necessary.

(c) TERM OF OFFICE. Each elected officer of the corporation shall hold his office for the term for which he was elected, or until he resigns or is removed by the board, whichever first occurs.

(d) APPOINTMENT OF OFFICERS AND AGENTS - TERMS OF OFFICE. The board from time to time may also appoint such other officers and agents for the corporation as it

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shall deem necessary or advisable. All appointed officers and agents shall hold their respective positions at the pleasure of the board or for such terms as the board may specify, and they shall exercise such powers and perform such duties as shall be determined from time to time by the board, or by an elected officer empowered by the board to make such determinations.

28. REMOVAL. Any officer or agent elected or appointed by the board of directors, and any employee, may be removed or discharged by the board whenever in its judgment the best interests of the corporation would be served thereby, but such removal shall be without a prejudice to the contract rights, if any, of the person so removed.

29. SALARIES AND COMPENSATION. Salaries and compensation of all elected officers of the corporation shall be fixed, increased or decreased by the board of directors, but this power, except as to the salary or compensation of the chairman of the board, the vice chairman of the board, the chief executive officer and the president, may, unless prohibited by law, be delegated by the board to the chairman of the board, the vice chairman of the board, the chief executive officer, the president or a committee. Salaries and compensation of all other appointed officers, agents, and employees of the corporation may be fixed, increased or decreased by the board of directors, but until action is taken with respect thereto by the board of directors, the same may be fixed, increased or decreased by the chairman of the board, by the chief executive officer, by the president or by such other officer or officers as may be empowered by the board of directors to do so.

30. DELEGATION OF AUTHORITY TO HIRE, DISCHARGE, ETC. The board from time to time may delegate to the chairman of the board, the vice chairman of the board, the chief executive officer, the president or other officer or executive employee of the corporation, authority to hire, discharge, and fix and modify the duties, salary or other compensation of employees of the corporation under their jurisdiction, and the board may delegate to such officer or executive employee similar authority with respect to obtaining and retaining for the corporation the services of attorneys, accountants and other experts.

31. THE CHAIRMAN OF THE BOARD, THE VICE CHAIRMAN OF THE BOARD, THE CHIEF EXECUTIVE OFFICER AND THE PRESIDENT. The chairman of the board or the president shall be elected by the board of directors to be the chief executive officer of the corporation, or the board of directors may elect a chief executive officer who is not the chairman of the board or the president, and the chief executive officer shall have general and active management of the business of the corporation and shall carry into effect all directions and resolutions of the board. The chairman of the board, the vice chairman of the board, the chief executive officer and the president shall be vested with such powers, duties, and authority as the board of directors may from time to time determine and as may be set forth in these bylaws. Except as otherwise provided for in these bylaws, the chairman of the board, or in his absence, the chief executive officer or president, shall preside at all meetings of the shareholders of the corporation and at all meetings of the board of directors.

The chairman of the board, vice chairman of the board, the chief executive officer or president may execute all bonds, notes, debentures, mortgages, and other contracts requiring a seal, under the seal of the corporation and may cause the seal to be affixed thereto, and all other instruments for and in the name of the corporation, except that if by law such instruments are required to be executed only by the president, he shall execute them.

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The chairman of the board, vice chairman of the board, chief executive officer or president, when authorized so to do by the board, may execute powers of attorney from, for, and in the name of the corporation, to such proper person or persons as he may deem fit, in order that thereby the business of the corporation may be furthered or action taken as may be deemed by him necessary

or advisable in furtherance of the interests of the corporation.

The chairman of the board, vice chairman of the board, chief executive officer or president, except as may be otherwise directed by the board, shall attend meetings of shareholders of other corporations to represent this corporation thereat and to vote or take action with respect to the shares of any such corporation owned by this corporation in such manner as he shall deem to be for the interests of the corporation or as may be directed by the board.

The chairman of the board, vice chairman of the board, chief executive officer or president shall have such other or further duties and authority as may be prescribed elsewhere in these bylaws or from time to time by the board of directors.";

32. VICE PRESIDENTS. The vice presidents in the order of their seniority shall, in the absence, disability or inability to act of the chairman of the board, the vice chairman of the board, the chief executive officer and the president, perform the duties and exercise the powers of the chairman of the board, the vice chairman of the board, the chief executive officer and the president, and shall perform such other duties as the board of directors shall from time to time prescribe.

33. THE SECRETARY AND ASSISTANT SECRETARIES. The secretary shall attend all sessions of the board and except as otherwise provided for in these bylaws, all meetings of the shareholders, and shall record or cause to be recorded all votes taken and the minutes of all proceedings in a minute book of the corporation to be kept for that purpose. He shall perform like duties for the executive and other standing committees when requested by the board or such committee to do so.

His shall be the principal responsibility to give, or cause to be given, notice of all meetings of the shareholders and of the board of directors, but this shall not lessen the authority of others to give such notice as is authorized elsewhere in these bylaws.

He shall see that all books, records, lists and information, or duplicates, required to be maintained at the registered or home office of the corporation in Missouri, or elsewhere, are so maintained.

He shall keep in safe custody the seal of the corporation, and when duly authorized to do so shall affix the same to any instrument requiring it, and when so affixed, he shall attest the same by his signature.

He shall perform such other duties and have such other authority as may be prescribed elsewhere in these bylaws or from time to time by the board of directors, the chairman of the board or the president, under whose direct supervision he shall be.

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He shall have the general duties, powers and responsibilities of a secretary of a corporation.

The assistant secretaries, in the order of their seniority, in the absence, disability or inability to act of the secretary, shall perform the duties and exercise the powers of the secretary, and shall perform such other duties as the board may from time to time prescribe.

34. THE TREASURER AND ASSISTANT TREASURERS. The treasurer shall have the responsibility for the safekeeping of the funds and securities of the corporation, and shall keep or cause to be kept, full and accurate accounts of receipts and disbursements in books belonging to the corporation. He shall keep, or cause to be kept, all other books of account and accounting records of the corporation, and shall deposit or cause to be deposited all monies and other valuable effects in the name and to the credit of the corporation in such depositories as may be designated by the board of directors.

He shall disburse, or permit to be disbursed, the funds of the corporation as may be ordered, or authorized generally, by the board, and shall render to the chief executive officers of the corporation and the directors whenever they may require it, an account of all his transactions as treasurer and of those under his jurisdiction, and of the financial condition of the corporation.

He shall perform such other duties and shall have such other responsibility and authority as may be prescribed elsewhere in these bylaws or from time to time by the board of directors.

He shall have the general duties, powers and responsibility of a treasurer of a corporation, and shall be the chief financial and accounting officer of the corporation.

The assistant treasurers in the order of their seniority shall, in the absence, disability or inability to act of the treasurer, perform the duties and exercise the powers of the treasurer, and shall perform such other duties as the board of directors shall from time to time prescribe.

35. DUTIES OF OFFICERS MAY BE DELEGATED. If any officer of the corporation be absent or unable to act, or for any other reason that the board may deem sufficient, the board may delegate, for the time being, some or all of the functions, duties, powers and responsibilities of any officer to any other officer, or to any other agent or employee of the corporation or other responsible person, provided a majority of the whole board concurs therein.

SHARES OF STOCK

36. CERTIFICATES OF STOCK. The certificates for shares of stock of the corporation shall be numbered, shall be in such form as may be prescribed by the board of directors in conformity with law, and shall be entered into the stock books of the corporation as they are issued, and such entries shall show the name and address of the person, firm, partnership, corporation or association to whom each certificate is issued. Each certificate shall have printed, typed or written thereon the name of the person, firm, partnership, corporation or association to whom it is issued, and number of shares represented thereby

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and shall be signed by the president or a vice president, and the treasurer or an assistant treasurer or the secretary or an assistant secretary of the corporation, and sealed with the seal of the corporation, which seal may be facsimile, engraved or printed. If the corporation has a registrar, a transfer agent, or a transfer clerk who actually signs such certificates, the signatures of any of the other officers above mentioned may be facsimile, engraved or printed. In case any such officer who has signed or whose facsimile signature has been placed upon any such certificate shall have ceased to be such officer before such certificate is issued, such certificate may nevertheless be issued by the corporation with the same effect as if such officer were an officer at the date of its issue.

37. TRANSFERS OF SHARES - TRANSFER AGENT - REGISTRAR. Transfers of shares of stock shall be made on the books of the corporation only by the person named in the stock certificate or by his attorney lawfully constituted in writing, and upon surrender of the certificate therefor. The stock record books and other transfer records shall be in the possession of the secretary or of a transfer agent or clerk of the corporation. The corporation by resolution of the board may from time to time appoint a transfer agent and if desired a registrar, under such arrangements and upon such terms and conditions as the board of directors deems advisable; but until and unless the board appoints some other person, firm, or corporation as its transfer agent (and upon the revocation of any such appointment, thereafter until a new appointment is similarly made) the secretary shall be the transfer agent or clerk of the corporation, without the necessity of any formal action of the board of directors and the secretary shall perform all of the duties thereof.

38. LOST CERTIFICATE. In the case of the loss or destruction of any outstanding certificate for shares of stock of the corporation, the corporation may issue a duplicate certificate (plainly marked "duplicate"), in its place, provided the registered owner thereof or his legal representatives furnish due proof of loss thereof by affidavit, and (if required by the board of directors, in its discretion) furnish a bond in such amount and form and with such surety as may be prescribed by the board. In addition, the board of directors may make any other requirements which it deems advisable.

39. CLOSING OF TRANSFER BOOKS. The board of directors shall have power to close the stock transfer books of the corporation for a period not exceeding

fifty days preceding the date of any meeting of the shareholders, or the date for payment of any dividend, or the date for the allotment of rights, or any effective date or change or conversion or exchange of capital stock; provided, however, that in lieu of closing the stock transfer books as aforesaid, the board of directors may fix in advance a date, not exceeding fifty days preceding the effective date of any of the above enumerated transactions, as a record date; and in either case such shareholders and only such shareholders as shall be shareholders of record on the date of closing the transfer books, or on the record date so fixed, shall be entitled to receive notice of any such transaction or to participate in any such transactions notwithstanding any transfer of any share on the books of the corporation after the date of closing the transfer books or such record date so fixed.

GENERAL

40. DIVIDENDS. Dividends upon the shares of stock of the corporation, subject to any applicable provisions of the Articles of Incorporation and of any applicable laws or

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statutes may be declared by the board of directors at any regular or special meeting. Dividends may be paid in cash, in property or in shares of its stock and to the extent and in the manner provided by law out of any available earned surplus or earnings of the corporation. Liquidating dividends or dividends representing a distribution of paid-in surplus or a return of capital shall be made only when and in the manner permitted by law.

41. CREATION OF RESERVES. Before the payment of any dividends, there may be set aside out of any funds of the corporation available for dividends such sum or sums as the board of directors from time to time, in their absolute discretion, think proper as a reserve fund or funds, to meet contingencies, or for equalizing dividends, or for repairing, or maintaining any property of the corporation, or for such other purposes as the board of directors shall think conducive to the interests of the corporation, and the board of directors may abolish any such reserve in the manner in which it was created.

42. FIXING OF CAPITAL, TRANSFERS OF SURPLUS. Except as may be specifically otherwise provided in the Articles of Incorporation, the board of directors is expressly empowered to exercise all authority conferred upon it or the corporation by any law or statute, and in conformity therewith, relative to:

- (i) The determination of what part of the consideration received for shares of the corporation shall be capital;
- (ii) Increasing or reducing capital;
- (iii) Transferring surplus to capital or capital to surplus;
- (iv) Allocating capital to shares of a particular class of stock;
- (v) The consideration to be received by the corporation for its shares; and
- (vi) All similar or related matters;

provided that any concurrent action or consent by or of the corporation and its shareholders required to be taken or given pursuant to law, shall be duly taken or given in connection therewith.

43. CHECKS, NOTES AND MORTGAGES. All checks, drafts, or other instruments for the payment, disbursement, or transfer of monies or funds of the corporation may be signed in its behalf by the treasurer of the corporation, unless otherwise provided by the board of directors. All notes of the corporation and any mortgages or other forms of security given to secure the payment of the same may be signed by the president who may cause to be affixed the corporate seal attested by the secretary or assistant secretary. The board of directors by resolution adopted by a majority of the whole board from time to time may authorize any officer or officers or other responsible person or persons to execute any of the foregoing instruments for and in behalf of the corporation.

44. FISCAL YEAR. The board of directors may fix and from time to time change the fiscal year of the corporation. In the absence of action by the board of directors, the fiscal

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year shall end each year on the same date which the officers of the corporation elect for the close of its first fiscal period.

45. TRANSACTIONS WITH RELATED PERSONS. The affirmative vote of not less than 80% of the outstanding shares of the corporation entitled to vote in an election of directors shall be required for the approval or authorization of any business transaction with a related person as set forth in the Articles of Incorporation in the manner provided therein.

46. DIRECTOR'S DUTIES; CONSIDERATION OF TENDER OFFERS. The board of directors shall have broad discretion and authority in considering and evaluating tender offers for the stock of this corporation. Directors shall not be liable for breach of their fiduciary duty to the shareholders merely because the board votes to accept an offer that is not the highest price per share, provided, that the directors act in good faith in considering collateral nonprice factors and the impact on constituencies other than the shareholders (i.e., effect on employees, corporate existence, corporate creditors, the community, etc.) and do not act in willful disregard of their duties to the shareholders or with a purpose, direct or indirect, to perpetuate themselves in office as directors of the corporation.

47. AMENDMENT OF BYLAWS. (a) BY DIRECTORS. The board of directors may make, alter, amend, change, add to or repeal these bylaws, or any provision thereof, at any time.

(b) BY SHAREHOLDERS. These bylaws may be amended, modified, altered, or repealed by the shareholders, in whole or in part, only at the annual meeting of shareholders or at the special meeting of shareholders called for such purpose, only upon the affirmative vote of the holders of not less than 80% of the outstanding shares of stock of this corporation entitled to vote generally in the election of directors, provided that an affirmative vote of a majority of the votes entitled to be cast shall be sufficient to approve any such amendment, modification, alteration or repeal that has been adopted by a vote of 80% of the members of the board of directors.

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ANNEX I

INDEMNIFICATION AGREEMENT

THIS AGREEMENT is made this day of _____, 19___, between H & R Block, Inc., a Missouri corporation (the "Company"), and _____ (the "Director").

WITNESSETH THAT:

WHEREAS, the Director is a member of the Board of Directors of the Company and in such capacity is performing a valuable service for the Company; and

WHEREAS, under the authority of Section 351.355 of the Missouri Revised Statutes of 1978, as amended to date (the "State Statute"), bylaws have been adopted that provide for the indemnification of the officers, directors, agents and employees of the Company to a greater extent than provided for by Subsections 1 through 3 of such State Statute; and

WHEREAS, the bylaws of the Company and the State Statute specifically provide that they are not exclusive, and thereby contemplate that contracts may be entered into between the Company and the members of its Board of Directors with respect to indemnification of such directors; and

WHEREAS, in accordance with the authorization provided by Subsection 7 of the State Statute, the Company has purchased and presently maintains a policy

or policies of Directors or Officers Liability Insurance ("D & O Insurance"), covering certain liabilities that may be incurred by its directors and officers in the performance of their services for the Company; and

WHEREAS, recent developments with respect to the terms and availability of D & O Insurance and with respect to the application, amendment and enforcement of statutory and bylaw indemnification provisions generally have raised questions concerning the adequacy and reliability of the protection afforded to directors thereby; and

WHEREAS, in order to resolve such questions and thereby induce the Director to serve and continue to serve as a member of the Board of Directors of the Company, the Company has determined and agreed to enter into this Agreement with the Director;

NOW, THEREFORE, in consideration of the Director's service and continued service as a director of the Company after the date hereof, the parties hereto agree as follows:

1. INDEMNITY OF THE DIRECTOR. Subject only to the exclusions set forth in Section 3 hereof, the Company hereby agrees as follows:

(a) To hold harmless and indemnify the Director against any and all expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by the Director in connection with any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (including an action by or in the right of the Company or any action accruing prior to the execution of the

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Agreement) to which the Director is, was or at any time becomes a party, or is threatened to be made a party, by reason of the fact that the Director is, was or at any time becomes a director, officer, employee or agent of the Company, or is or was serving or at any time serves at the request of the Company as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise; and

(b) Otherwise to hold harmless and indemnify the Director to the fullest extent as may be provided to the Director by the Company under the nonexclusivity provisions of Section 23 of the Bylaws and Subsection 6 of the State Statute.

(c) To pay the Director, or such person or entity as the Director may designate, on a continuing and current basis (and in any event not later than ten business days following receipt by the Company of the Director's request for reimbursement) all expenses (including attorneys' fees), costs, fines, etc., incurred by or levied upon the Director in connection with any action, suit or proceeding that may be indemnifiable under the provisions of this Agreement.

2. MAINTENANCE OF INSURANCE AND SELF INSURANCE. (a) The Company represents that it presently has in force and effect policies of D & O Insurance with insurance companies and in amounts as follows (the "Insurance Policies"):

INSURER -----	AMOUNT -----	COMPANY CONTRIBUTION -----
National Union	\$10,000,000	\$500,000

Unless notification is given to the Director pursuant to the provisions of Section 2(b) hereof, the Company hereby agrees that, so long as the Director continues to serve as a director of the Company (or shall continue at the request of the Company to serve as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise) and thereafter so long as the Director is subject to any possible claim or threatened, pending or completed action, suit or proceeding, whether civil, criminal or investigative by reason of the fact that the Director was a director of the Company (or served in any of said other capacities), the Company will purchase and maintain in effect for the benefit of the Director one or more valid, binding and enforceable policy or policies of D & O Insurance providing,

in all respects, coverage at least comparable to that presently provided pursuant to the Insurance Policies. For purposes of this Agreement, any policy or policies of D & O Insurance purchased to maintain such coverage shall be deemed to be the Insurance Policies.

(b) The Company shall not be required to maintain said Insurance Policies in effect, provided, however, that the Company notifies the Director in writing within five business days after the making of the decision to not renew or replace the Insurance Policies, or any portion of the coverage previously provided by the Insurance Policies.

(c) The maintenance of such insurance shall not diminish, relieve or replace the Company's liability for indemnification under the provisions of the State Statute, the Company's bylaws (the "Bylaws") or this Agreement. The Director's claim for reimbursement in advance of final disposition of an action, suit or proceeding of expenses which may be

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indemnifiable under the provisions of the State Statute, Bylaws or this Agreement and payable in advance of final disposition of an action pursuant to Subsection 6 of the State Statute, Section 23 of the Bylaws, or Section 1(c) of this Agreement shall not be denied on the basis that such amount may or will be covered by the Insurance Policies, if such payments from the insurance company will not be made to the Director within ten business days of such Director's claim for reimbursement.

3. LIMITATIONS ON ADDITIONAL INDEMNITY. The Company shall be entitled to reimbursement from the Director for all monies paid to him or her as indemnification pursuant to this Agreement under the following circumstances:

(a) to the extent of any costs or expenses the Director is actually reimbursed pursuant to any Insurance Policies purchased and maintained by the Company pursuant to Section 2 hereof;

(b) if it is determined by a final judgment or other final adjudication by a court of competent jurisdiction considering the question of indemnification of the Director that such payment of indemnification is or would be in violation of applicable law;

(c) on account of any suit in which judgment is rendered against the Director for an accounting of profits made from the purchase and sale or sale and purchase by the Director of securities of the Company pursuant to the provisions of Section 16(b) of the Securities Exchange Act of 1934 and amendments thereto;

(d) if the Director's conduct is finally adjudged by a court of competent jurisdiction to have been knowingly fraudulent, deliberately dishonest or to constitute willful misconduct; or

(e) if it is finally determined by a court of competent jurisdiction considering the question that the Director's decision to employ independent legal counsel, pursuant to Section 5(b)(ii) hereof, was not based on a "reasonable" conclusion that there was a conflict of interest between the Company and the Director.

4. CONTINUATION OF INDEMNITY. All agreements and obligations of the Company contained herein shall continue during the period the Director is a director, officer, employee or agent of the Company (or is or was serving at the request of the Company as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise) and shall continue thereafter so long as the Director is subject to any possible claim or threatened, pending or completed action, suit or proceeding, whether civil, criminal or investigative, by reason of the fact that the Director was a director of the Company or serving in any other capacity referred to herein.

5. NOTIFICATION AND DEFENSE OF CLAIM. Promptly after receipt by the Director of notice of the commencement of any action, suit or proceeding, the Director will, if a claim in respect thereof is to be made against the Company under this Agreement, notify the Company of the commencement thereof; the failure to promptly notify the Company will not relieve the Company from any liability that it may have to the Director hereunder, except to the extent the Company is prejudiced in its defense of such claim as a result of such failure.

Unless otherwise requested by the Board, written notification shall not be necessary if the Director informs a majority of the Board of the commencement of any such action, or,

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independent of such notification by the Director, a majority of the Board has reason to believe such action has been initiated or threatened. With respect to any such action, suit or proceeding as to which the Director notifies (or is deemed to have notified) the Company of the commencement thereof:

(a) The Company will be entitled to participate therein at its own expense;

(b) Except as otherwise provided below, to the extent that it may wish, the Company, jointly with any other indemnifying party similarly notified, will be entitled to assume the defense thereof with counsel reasonably satisfactory to the Director. Subject to the provision below, after notice from the Company to the Director of its election so to assume the defense thereof, the Company will not be liable to the Director under this Agreement for any legal or other expenses subsequently incurred by the Director in connection with the defense thereof other than reasonable costs of investigation or as otherwise provided below. The Director shall have the right to employ his or her own counsel in such action, suit or proceeding, but the fees and expenses of such counsel incurred after notice from the Company of its assumption of the defense thereof shall be at the expense of the Director unless (i) the employment of counsel by the Director has been authorized by the Company, (ii) the Director reasonably concludes that there may be a conflict of interest between the Company and the Director in the conduct of the defense of such action and that such conflict may lead to exposure for the director not otherwise indemnifiable under the provisions of this Agreement and notifies the Company of such conclusion and decision to employ separate counsel, or (iii) the Company fails to employ counsel to assume the defense of such action, in each case the fees and expenses of counsel shall be at the expense of the Company. The Company shall not be entitled to assume the defense of any action, suit or proceeding brought by or on behalf of the Company or as to which the Director reasonably makes the conclusion provided for in (ii) above; and

(c) The Company shall not be liable to indemnify the Director under this Agreement for any amounts paid in settlement of any action or claim effected without its written consent. The company shall not settle any action or claim in any manner which would impose any penalty or limitation on the Director without the Director's written consent. Neither the Company nor the Director will unreasonably withhold their consent to any proposed settlement.

6. REPAYMENT OF EXPENSES. The Director agrees that he or she will reimburse the Company for all reasonable expenses paid by the Company in defending any civil or criminal action, suit or proceeding against him or her in the event and only to the extent that it is ultimately determined by a court of competent jurisdiction considering the question that the Director is not entitled to be indemnified by the Company for such expenses under the provisions of the State Statute, the Bylaws, this Agreement or otherwise.

7. ENFORCEMENT. (a) The Company expressly confirms and agrees that it has entered into this Agreement and assumed the obligations imposed on the Company hereby in order to induce the Director to continue as a director of the Company, and acknowledges that the Director is relying upon this Agreement in continuing in such capacity.

(b) In the event the Director is required to bring any action to enforce rights or to collect monies due under this Agreement and is successful in such action, the Company

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shall reimburse the Director for all of the Director's reasonable fees and expenses (including attorney's fees) in bringing and pursuing such action.

8. SEPARABILITY. Each of the provisions of this Agreement is a separate and distinct agreement and independent of the others, so that if any

provision hereof shall be held to be invalid or unenforceable for any reason, such invalidity of unenforceability shall not affect the validity or enforceability of the other provisions hereof.

9. MISCELLANEOUS. (a) This Agreement shall be interpreted and enforced in accordance with the laws of the State of Missouri.

(b) This Agreement shall be binding upon the Director and upon the Company, its successors and assigns, and shall inure to the benefit of the Director, his or her heirs, personal representatives and assigns and to the benefit of the Company, its successors and assigns.

(c) No amendment, modification, termination or cancellation of this Agreement shall be effective unless in writing signed by both parties hereto.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement on and as of the day and year first above written.

H & R BLOCK, INC.

By _____

By _____,
_____, the Director

H&R BLOCK, INC.

1993 LONG-TERM EXECUTIVE COMPENSATION PLAN
(As Amended Through September 8, 1999)

1. PURPOSES. The purposes of this 1993 Long-Term Executive Compensation Plan are to provide incentives and rewards to those employees largely responsible for the success and growth of H&R Block, Inc., and its subsidiary corporations and to assist all such corporations in attracting and retaining executives and other key employees with experience and ability.

2. DEFINITIONS.

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

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

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

(d) INCENTIVE STOCK OPTION means a Stock Option which meets all of the requirements of an "incentive stock option" as defined in Section 422(b) of the Internal Revenue Code of 1986, as now in effect or hereafter amended (the "Internal Revenue Code").

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

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

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

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

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

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

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

(l) STOCK OPTION means the right to purchase, upon exercise of a Stock

Option granted under this Plan, shares of the Company's Common Stock.

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

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

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

The Committee may at any time and from time to time delegate to the Chief Executive Officer of the Company authority to take any or all of the actions that may be taken by the Committee as specified in this Section 4 or in other sections of the Plan in connection with the determination of Recipients, types, sizes, terms and conditions of Awards under the Plan and the grant of any such Awards, provided that any authority so delegated (a) shall apply only to Awards to employees of the Company that are not officers of Company under Regulation Section 240.16a-1(f) promulgated pursuant to Section 16 of the Securities Exchange Act of 1934, and (b) shall be exercised only in accordance with the Plan and such rules, regulations, guidelines, and limitations as the Committee shall prescribe.

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

6. STOCK SUBJECT TO THE PLAN. The total number of shares of Common Stock issuable under this Plan may not at any time exceed 13,000,000 shares, subject to adjustment as provided herein. All of such shares may be issued or issuable in connection with the exercise of Incentive Stock Options. No more than an aggregate of five percent (5%) of the total number of shares of Common Stock issuable under this Plan may be issued or issuable in connection with

Awards that constitute Common Stock, Restricted Shares, Performance Shares and Performance Units. Shares of Common Stock not actually issued pursuant to an Award shall be available for future Awards. Shares of Common Stock to be delivered or purchased under the Plan may be either authorized but unissued Common Stock or treasury shares. The total number of shares of Common Stock that may be subject to one or more Awards granted to any one Recipient during a calendar year may not exceed 350,000, subject to adjustment as provided in Section 16 of the Plan.

7. AWARDS.

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

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

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

9. DEFERRED PAYMENTS AND DIVIDEND AND INTEREST EQUIVALENTS.

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

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(b) The Committee may provide, in its sole and absolute discretion, that a Recipient to whom an Award is payable in whole or in part at a future time in shares of Common Stock shall be entitled to receive an amount per share equal in value to the cash dividends paid per share on issued and outstanding shares as of the dividend record dates occurring during the period from the date of the Award to the date of delivery of such share to the Recipient. The Committee may also authorize, in its sole and absolute discretion, payment of an amount which a Recipient would have received in interest on (i) any Award payable at a future time in cash during the period from the date of the Award to the date of payment, and (ii) any cash dividends paid on issued and outstanding shares as of the dividend record dates occurring during the period from the date of an Award to the date of delivery of shares pursuant to the Award. Any amounts provided under this subsection shall be payable in such manner, at such time or times, and subject to such terms and conditions as the Committee may determine in its sole and absolute discretion.

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

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

12. CONTINUATION OF EMPLOYMENT. The Committee shall require that a Recipient be an employee of the Company at the time an Award is paid or exercised. The Committee may provide for the termination of an outstanding Award if a Recipient ceases to be an employee of the Company and may establish such other provisions with respect to the termination or disposition of an Award on

the death or retirement of a Recipient as it, in its sole discretion, deems advisable. The Committee shall have the sole power to determine the date of any circumstances which shall constitute a cessation of employment and to determine whether such cessation is the result of retirement, death or any other reason.

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

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

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

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16. DILUTION OR OTHER ADJUSTMENTS. In the event of any changes in the capital structure of the Company, including but not limited to a change resulting from a stock dividend or split-up, or combination or reclassification of shares, the Board of Directors shall make such equitable adjustments with respect to Awards or any provisions of this Plan as it deems necessary and appropriate, including, if necessary, any adjustment in the maximum number of shares of Common Stock subject to the Plan, the maximum number of shares that may be subject to one or more Awards granted to any one Recipient during a calendar year, or the number of shares of Common Stock subject to an outstanding Award.

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

18. WITHHOLDING TAXES. The Company shall have the right to deduct from all Awards hereunder paid in cash any federal, state, local or foreign taxes required by law to be withheld with respect to such Awards and, with respect to Awards paid in other than cash, to require the payment (through withholding from the Recipient's salary or otherwise) of any such taxes. Subject to such conditions as the Committee may establish, Awards under the Plan payable in shares of Common Stock may provide that the Recipients thereof may elect, in accordance with any applicable regulations, to have the Company withhold shares of Common Stock to satisfy all or part of any such tax withholding obligations, with the value of such withheld shares of Common Stock based upon their fair market value on the date the tax withholding is required to be made.

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

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

21. AWARD CONTRACTS. The Committee shall have the power to specify the form of Award contracts to be granted from time to time pursuant to and in accordance with the provisions of the Plan and such contracts shall be final, conclusive and binding upon the Company, the shareholders of the Company and the Recipients. No Recipient shall have or acquire any rights under the Plan except

such as are evidenced by a duly executed contract in the form thus specified. No Recipient shall have any rights as a holder of Common Stock with respect to Awards hereunder unless and until certificates for shares of Common Stock or Restricted Shares are issued to the Recipient.

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

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

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

24. TERMINATION. The Committee may grant Awards at any time prior to September 7, 2003, on which date this Plan will terminate except as to Awards then outstanding hereunder, which Awards shall remain in effect until they have expired according to their terms or until September 7, 2003, whichever first occurs. No Incentive Stock Option shall be exercisable later than 10 years following the date it is granted.

25. APPROVAL. This Plan shall take effect upon due approval by the shareholders of the Company.

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H&R BLOCK, INC.

1999 STOCK OPTION PLAN FOR SEASONAL EMPLOYEES

(AS AMENDED SEPTEMBER 8, 1999)

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

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

ARTICLE 3. ADMINISTRATION OF THE PLAN. The Plan shall be administered by the Compensation Committee of the Board of Directors of the Company (the "Committee") consisting of three or more directors of the Company, to be appointed by and to serve at and during the pleasure of the Board of Directors of the Company. All references herein to the Committee shall be deemed to mean the Board of Directors of the Company if the Board has not appointed a Committee. A majority of the Committee shall constitute a quorum and the acts of a majority of the members present at any meeting at which a quorum is present, or acts approved in writing by a majority of the Committee, shall be valid acts of the Committee. The Committee shall have full power and authority to construe, interpret and administer the Plan and, subject to the powers herein specifically reserved to the Board of Directors and to the other provisions of this Plan, to make determinations which shall be final, conclusive and binding upon all persons, including without limitation the Company, Tax Services, the stockholders, the Board of Directors and any persons having any interest in any options which may be granted under the Plan. The Committee may impose such additional conditions upon the grant and exercise of options under this Plan as may from time to time be deemed necessary or desirable, in the opinion of counsel of the Company, to comply with applicable laws and regulations. The Committee from time to time may adopt rules and regulations for carrying out the Plan.

ARTICLE 4. ELIGIBILITY. Options shall be granted on June 30 of each year the Plan is in effect (the "date of grant") only to "Eligible Seasonal Employees" of Tax Services for such year. The term "Eligible Seasonal Employees" for any calendar year during which the Plan is in effect shall include all those employees of Tax Services who (a) are hired to perform for limited periods of time during such year jobs specifically designated by Tax Services to be seasonal jobs and (b) have adhered to the working hours agreed upon during such year.

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ARTICLE 5. STOCK SUBJECT TO THE PLAN. The shares of Common Stock to be issued upon exercise of the options granted under the Plan shall be made available, at the discretion of the Board of Directors of the Company, either from authorized but unissued stock of the Company or from shares that have been

purchased by the Company from any source whatever, but the aggregate number of shares for which options may be granted under the Plan shall not exceed 6,000,000 shares of Common Stock of the Company. If an option granted under the Plan shall be surrendered or shall for any reason whatsoever expire or terminate in whole or in part without the exercise thereof, then the shares of stock which were subject to any such option shall, if the Plan shall then be in effect, be available for options thereafter granted under the Plan.

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

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

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

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which the stock is quoted) of such year.

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

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

at any time.

B. PERIODS OF EXERCISING OPTION. An option may be exercised only between the dates of September 1 through November 30 of either of the two calendar years immediately following the calendar year in which said option was granted, and said option shall expire as to all shares subject thereto which are not so exercised.

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

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

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

ARTICLE 10. AMENDMENT AND DISCONTINUANCE. The Board of Directors of the Company shall have the right at any time during the continuance of the Plan to amend, modify, supplement,

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

ARTICLE 11. EFFECTIVE DATE; EXPIRATION OF PLAN. The Plan shall be effective on June 30, 1999 (with the grant of options on that date) and, unless extended, shall terminate on December 31, 2002, but no termination of the Plan, whether under the provisions of this Article 11 or otherwise, shall affect the

continuance of any option granted hereunder prior to said date.

AMENDMENT NO. 2
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. 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. 2 is effective as of January 1, 2000.

AMENDMENT

1. Section 2.1.7 of the Plan is amended by deleting the current Section 2.1.7 and replacing it with the following new Section 2.1.7:

2.1.7 "Annual Deferral Amount" means the amount of Base Salary, and/or Bonus that a Participant elects to defer each Plan Year under a Permissible Deferral. The amount of Base Salary included in the Annual Deferral Amount shall be equal to a percentage of the Participant's Base Salary that is not less than three percent (3%) and either (a) not greater than fifty percent (50%) for Permissible Deferrals of persons eligible to participate in the Plan prior to January 1, 2000, and who continuously remain eligible to make Permissible Deferrals in Plan Years commencing on or after said date, or (b) not greater than twenty percent (20%) for Permissible Deferrals of persons first eligible to participate in the Plan on or after January 1, 2000 (or who again become eligible to make Permissible Deferral elections pursuant to Section 3.6(ii) after January 1, 2000). The amount of Bonus or Bonuses included in the Annual Deferral Amount shall be equal to (i) a flat dollar amount, expressed in one thousand dollar (\$1,000) increments (not greater than the maximum percentage of the Bonus specified in (ii), below), or (ii) a percentage of the Bonus or Bonuses paid during the Plan Year that is not less than five percent (5%) and either (A) not greater than fifty percent (50%), expressed in five percent (5%) increments, for Permissible Deferrals of persons eligible to participate in the Plan prior to January 1, 2000, and who continuously remain eligible to make Permissible Deferrals in Plan Years commencing on or after said date, or (B) not greater than twenty percent (20%) for Permissible Deferrals of persons first eligible to participate in the Plan on or after January 1, 2000 (or who again become eligible to make Permissible Deferral elections pursuant to Section 3.6(ii) after January 1, 2000). In the case of a Participant who is an employee of both an Accounting Subsidiary and an Accounting Firm, the calculation of the amount of the Annual Deferral Amount that the Participant is permitted to elect shall be made by taking into account the amount of salary and bonus paid to such Participant by the Accounting Firm, but the actual deferral under the Plan shall only be made out of the Base Salary and/or Bonus or Bonuses paid by all Affiliates.

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2. Section 4.1.2 of the Plan, as previously amended, is further amended by (a) inserting in the second sentence of the first paragraph thereof the phrase "by a Participant who was eligible to participate in the Plan prior to January 1, 2000" after the existing words and numbers "pursuant to Section 4.1.1" and immediately prior to the first comma in such second sentence; and (b) adding the following new sentence at the end of the first paragraph thereof:

"For Participants who first become eligible to participate in the Plan with the Plan Year commencing on January 1, 2000 or thereafter, no Matching Contributions shall be posted to their Accounts."

3. Except as modified in this Amendment No. 2, 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: President and CEO

AMENDMENT NO. 3
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, and by Amendment No. 2 effective as of January 1, 2000. 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. 3 is effective as of September 8, 1999.

AMENDMENT

1. A new Section 2.1.46 is added, as follows:

"2.1.46 '3-year payout' has the meaning specified in Section 6.3.2.";

and the current Sections 2.1.46 and 2.1.47 are renumbered Sections 2.1.47 and 2.1.48, respectively.

2. Section 3.2 of the Plan is amended by adding the following new sentence at the end of said Section 3.2:

"A Permissible Deferral election made during an Enrollment Period for a succeeding Plan Year shall remain in effect for each Plan Year subsequent to such succeeding Plan Year unless (a) the Participant changes his or her Permissible Deferral election during a subsequent Enrollment Period (in which case such changed Permissible Deferral election shall apply to the next succeeding Plan Year and subsequent Plan Years unless and until the Permissible Deferral election is properly changed again), (b) the Committee permits the Participant to terminate future deferrals or withdraw his or her total Account pursuant to Section 6.7, or (c) total Permissible Deferrals reach the limitation set forth in Section 2.1.38."

3. Section 6.2.1 of the Plan is amended by deleting the number "13" in the second sentence thereof and replacing it with the number "12."

4. Section 6.2.2 of the Plan is amended by deleting the number "13" in the third sentence thereof and replacing it with the number "12."

5. Section 6.3.2 of the Plan is amended by deleting the current Section 6.3.2 and replacing it with the following new Section 6.3.2:

"6.3.2 If a Change in Control has not occurred, for Participants who terminate employment with all Affiliates on or after August 1, 1995, but before the Normal Retirement Date or the Early Retirement Date, for reasons other than Disability or death, payment(s) from the Account shall be in the form of (a) semimonthly payments over a three-year period (a "3-

year payout"), or (b) a lump sum, as elected by the Participant in accordance with Section 6.3.4, provided that, for such Participants in the Plan as of September 18, 1999, who (i) had elected to receive payments from the Account in the form of (x) semimonthly payments over a 10-year period (a "10-year payout"), or (y) semimonthly payments over a five-year period (a "5-year payout"), pursuant to Section 6.3.2 (as in effect immediately prior to September 8, 1999), and (ii) do not make a different election after September 8, 1999, pursuant to Section 6.3.4, payments from the Account shall be in the form of such elected 10-year payout or 5-year payout, as the case may be."

6. Section 6.3.4 of the Plan is amended by deleting the current Section 6.3.4 and replacing it with the following new Section 6.3.4:

"6.3.4 An election under Section 6.3.2 for a 3-year payout or a lump-sum payout shall be made by the Participant at the time of the Participant's first Permissible Deferral election, and may be changed by the Participant no more than once in every 12-consecutive-month period thereafter. If no election under Section 6.3.2 is made by a Participant eligible to make such an election, payment for the Account shall be in the form of a lump sum. If a Participant participated in the Plan prior to September 8, 1999, and made an election for a 10-year payout or a 5-year payout pursuant to Section 6.3.2, as such Section existed prior to September 8, 1999, such Participant may elect a 3-year payout or a lump-sum payout during or after the first Enrollment Period commencing after September 8, 1999, provided that any such Participant may not change such election more than once in every 12-consecutive-month period after such new election, and, provided further, that once any such Participant has elected a 3-year payout or a lump-sum payout pursuant to this Section 6.3.4, such Participant may not again elect a 10-year payout or a 5-year payout. Upon termination of employment before the Normal Retirement Date or the Early Retirement Date for reasons other than death or disability, payouts from the Account (with respect to all Permissible Deferral elections made by the Participant) shall be in accordance with the most recent election made pursuant to this Section 6.3.4 (or, if applicable, pursuant to Section 6.3.2, as such Section existed prior to September 8, 1999) not less than 12 months prior to such termination of employment."

7. Section 6.3.5 of the Plan is amended by deleting the current Section 6.3.5 and replacing it with the following new Section 6.3.5:

"6.3.5 If an eligible Participant has elected a 10-year payout or a 5-year payout pursuant to Section 6.3.2 (as such Section 6.3.2 existed prior to September 8, 1999), or if an eligible Participant has elected a 3-year payout pursuant to Section 6.3.4. and the amount of each semimonthly installment, as initially calculated, is less than \$500 (such calculation to be accomplished by amortizing the aggregate of the Participant's Account balances over the payment period using no crediting rate), the form of payment(s) for such Participant shall be a 5-year payout in lieu of an

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elected 10-year payout (unless the amount of each semimonthly installment under a 5-year payout, as so calculated, is also less than \$500, in which case the form of payment will be a single lump sum), or a lump sum in lieu of an elected 5-year payout, or a lump sum in lieu of an elected 3-year payout, as the case may be."

8. Section 6.3.6 of the Plan is amended by deleting the current clause (1) in the first sentence of such Section and replacing it with the following new clause (1):

"(1) elects a 10-year payout, a 5-year payout, or a 3-year payout, and any such payout is not automatically converted to a lump sum pursuant to Section 6.3.5, and".

9. Section 6.4.3 of the Plan is amended by deleting the current Section 6.4.3 and replacing it with the following new Section 6.4.3:

"6.4.3 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 pursuant to Section 6.2 prior to September 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 Brothers, 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 Plan Year Payment Period shall be calculated by taking the balance in the Account as of November 30 of the Plan Year

immediately prior to such Plan Year Payment Period, subtracting the benefit payments made during the portion of such preceding Plan 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 pursuant to Section 6.2 prior to September 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 Plan Year immediately prior to the Remainder Payment Period, subtracting the benefit payments made during the portion of such preceding Plan 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 in crediting rates shall be paid to the Participant in a single payment within six months after the last day of the Remainder Payment Period."

3

4

10. Except as modified in this Amendment No. 3, 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.

H&R BLOCK, INC.

By: /s/ Frank L. Salizzoni

Its: Chief Executive Officer

4

<ARTICLE> 5

<LEGEND>

THE 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.

</LEGEND>

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