

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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FORM 10-K/A  
Amendment Number 1

(Mark One)

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934 [FEE REQUIRED] FOR THE FISCAL YEAR ENDED  
APRIL 30, 1996
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934 [NO FEE REQUIRED]

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 Identification No.)  
incorporation or organization)

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)

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

TITLE OF EACH CLASS	NAME OF EXCHANGE ON WHICH REGISTERED
Common Stock, Without Par Value	New York Stock Exchange Pacific Stock Exchange

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:

COMMON STOCK, WITHOUT PAR VALUE  
(Title of Class)

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

The aggregate market value of the voting stock held by non-affiliates of the registrant, computed by reference to the price at which the stock was sold on June 1, 1996, was \$3,425,760,718.

Number of shares of registrant's Common Stock, without par value, outstanding on June 1, 1996: 103,419,705.

## DOCUMENTS INCORPORATED BY REFERENCE

A certain specified portion of the registrant's annual report to security holders for the fiscal year ended April 30, 1996, is incorporated herein by reference in response to Part II, Item 5, and certain specified portions of the registrant's definitive proxy statement filed within 120 days after April 30, 1996, are incorporated herein by reference in response to Part III, Items 10 through 13, inclusive. A certain specified portion of the annual report on Form 10-K/A of CompuServe Corporation for the fiscal year ended April 30, 1996, is incorporated herein by reference in response to Part I, Item 1, and Part I, Item 2.

## PART I

## ITEM 1. BUSINESS.

## GENERAL DEVELOPMENT OF BUSINESS

H&R Block, Inc. is a diversified services corporation that was organized in 1955 under the laws of the State of Missouri (the "Company"). It is the parent corporation in a two-tier holding company structure following a 1993 corporate restructuring. The second-tier holding company is H&R Block Group, Inc., a Delaware corporation and the direct owner of (1) all of the shares of H&R Block Tax Services, Inc., the Company's subsidiary involved in the business of income tax return preparation, electronic filing of income tax returns and the performance of other tax related services, (2) all of the shares of Block Financial Corporation, a subsidiary that develops and provides technology-driven financial services, and (3) approximately 80.1% of the shares of CompuServe Corporation ("CompuServe"), a corporation that offers worldwide online and Internet access services to consumers and worldwide network access, management and applications, and Internet services to businesses.

Developments within H&R Block Tax Services, Inc. and Block Financial Corporation during fiscal year 1996 are described in the section below entitled "Description of Business." The descriptions of the business and properties of CompuServe Corporation are contained in the annual report on Form 10-K/A of CompuServe Corporation for the fiscal year ended April 30, 1996, in the section entitled "Business and Properties," and such descriptions are incorporated herein by reference. A copy of the Form 10-K/A of CompuServe Corporation will be provided free of charge upon request sent to H&R Block, Inc., 4400 Main Street, Kansas City, Missouri 64111, Attention: Investor Relations.

The reduction during fiscal year 1996 of H&R Block Group, Inc.'s ownership of CompuServe stock from 100% to approximately 80.1% is the result of CompuServe's initial public offering of its common stock in April 1996. Pursuant to such offering, CompuServe sold 18.4 million shares of its common stock to the public at \$30.00 per share. The net proceeds of the initial public offering received by CompuServe were \$518,819,000. The initial public offering was the initial phase of a complete separation of CompuServe Corporation from the Company first announced in February 1996. In July 1996, the Company indicated its intent to complete the separation by means of a pro rata distribution of the remaining 74,200,000 shares of CompuServe Corporation stock to shareholders of the Company on or about November 1, 1996, subject to certain conditions, including shareholder approval of the distribution at the 1996 annual meeting of shareholders of the Company and the receipt of a favorable ruling from the Internal Revenue Service ("IRS") as to the tax-free nature of the transaction.

On August 28, 1996, the Company's Board of Directors announced its decision not to present to shareholders at the September 1996 annual meeting of shareholders the proposed pro rata distribution of the remaining CompuServe shares. The decision was based, in part, on CompuServe's first quarter and projected second quarter losses, market uncertainties related to the online industry and the planned September introduction of new interfaces for CompuServe's online services, CompuServe Information Service and WOW!.

During the year ended April 30, 1996, the Company was not involved in

any bankruptcy, receivership or similar proceedings or any material reclassifications, mergers or consolidations and the Company did not acquire or dispose of any material amount of assets otherwise than in the ordinary course of business. See, however, the discussion above concerning the initial public offering by CompuServe Corporation of 18.4 million shares of its common stock in April 1996.

On May 1, 1995, the Company sold MECA Software, Inc. ("MECA"), a Delaware corporation involved in developing, publishing and marketing personal productivity software products, to Bank of America, N.T. & S.A., and NationsBank, N.A. (Carolinas) for \$35 million. The sale resulted in a pretax gain of \$12.4 million. MECA's primary product was Managing Your Money(R), computer software designed to assist individuals in managing personal finances. The sale was exclusive of the Company's rights to publish Kiplinger TaxCut(R) and several other software products.

Thomas M. Bloch resigned as President, Chief Executive Officer and a director of the Company, effective

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August 5, 1995, in order to pursue non-business alternatives. Richard H. Brown succeeded Thomas Bloch and served as President, Chief Executive Officer and a director of the Company from August 5, 1995, until his resignation from such positions effective June 19, 1996, in order to become chief executive of Cable & Wireless Group plc in London, England. On June 19, 1996, Frank L. Salizzoni, a director of the Company, was elected its President and Chief Executive Officer and will serve as such on an interim basis until a successor for Mr. Brown is elected. A search committee consisting of three members of the Board of Directors was appointed to assist in the process of selecting a new Chief Executive Officer of the Company.

#### FINANCIAL INFORMATION ABOUT INDUSTRY SEGMENTS

The information required by Item 101(b) of Regulation S-K relating to financial information about industry segments is contained in the Notes to Consolidated Financial Statements in Item 8 of Part II of this report and is incorporated herein by reference.

#### NUMBER OF EMPLOYEES

The Company, including its direct and indirect wholly owned subsidiaries, has approximately 1,300 regular full-time employees. The highest number of persons employed by the Company during the fiscal year ended April 30, 1996, including seasonal employees, was approximately 79,000. As of April 30, 1996, CompuServe had approximately 3,650 full-time employees.

#### DESCRIPTION OF BUSINESS

##### DIVERSIFIED SERVICES

The Company provides to the public diversified services that include income tax return preparation, electronic filing and other services related to income tax return preparation, technology-driven financial services, online and Internet access services, and network access, management and applications. The description of the business of CompuServe Corporation is contained in the annual report on Form 10-K/A of CompuServe Corporation for the fiscal year ended April 30, 1996, in the section entitled "Business and Properties," and such description is incorporated herein by reference.

##### TAX SERVICES

Generally. The income tax return preparation and related services business is the original core business of the Company. These services are provided to the public through a system of offices operated by the Company or by

others to whom the Company has granted franchises. The Company and its franchisees provide income tax return preparation services, electronic filing services and other services relating to income tax return preparation in many parts of the world. For U.S. returns, H&R Block offers a refund anticipation loan service in conjunction with its electronic filing service. H&R Block also markets its knowledge of how to prepare income tax returns through its income tax training schools. As discussed below, H&R Block introduced new products and services to its tax customers during fiscal year 1996.

Following the end of fiscal year 1996, the Company announced that its tax operations will be divided structurally into three areas, each targeting specific markets and focusing on new products and services and areas for expansion. H&R Block Tax Services, Inc., will focus on tax business operations in the United States. H&R Block Premium, a division of Tax Services, will compete for those clients who typically employ accounting firms to prepare their tax returns. H&R Block International will focus on strengthening current foreign markets, such as Canada and Australia, and identify and develop new ones.

References in this section to "Tax Services" include H&R Block Tax Services, Inc., and its subsidiaries involved in the income tax return preparation business (including those foreign subsidiaries now operating as a part of H&R Block International). References in this section to "H&R Block" include both Tax Services and its franchisees.

Taxpayers Served. H&R Block served approximately 17,415,000 taxpayers worldwide during fiscal year 1996, an increase from the 17,060,000 taxpayers served in fiscal year 1995. The number of taxpayers served by H&R Block in the United States alone was approximately 14,800,000. "Taxpayers served" includes taxpayers for whom H&R Block prepared income tax returns as well as taxpayers for whom Block provided only electronic filing services.

Tax Return Preparation. During the 1996 income tax filing season (January 2 through April 30), H&R Block offices prepared approximately 13,360,000 individual United States income tax returns, compared to the preparation of 12,918,000 such returns in fiscal year 1995. These U.S. returns constituted about 12% of an IRS estimate of total U.S. individual income tax returns filed during fiscal year 1996. The following table shows the approximate number of U.S. income tax returns prepared at H&R Block offices during the last five tax filing seasons:

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	Year Ended April 30				
	1996	1995	1994	1993	1992
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	(In thousands)				
Returns Prepared	12,973	12,968	13,036	12,918	13,360

During the tax season, most H&R Block offices are open from 9:00 a.m. to 9:00 p.m. weekdays and from 9:00 a.m. to 5:00 p.m. Saturdays and Sundays. Office hours are often extended during peak periods. Most tax preparation business is transacted on a cash basis. The procedures of Tax Services have been developed so that a customer's tax return is prepared in his or her presence, in most instances in less than one hour, on the basis of information furnished by the customer. In all company-owned offices and most franchised offices, tax returns are prepared with the assistance of a computer. After the customer's return has been initially prepared, he or she is advised of the amount of his or her tax due or refund. The return, however, is retained and reviewed for accuracy. After completion of this review and after copies of the return have been made, the return is presented to the customer for signature and filing. These post-preparation procedures must be modified somewhat for customers who desire to have their returns electronically filed (see "Electronic Filing," below).

If an H&R Block preparer makes an error in the preparation of a customer's tax return that results in the assessment of any interest or

penalties on additional taxes due, while H&R Block does not assume the liability for the additional taxes (except under its "Peace of Mind" Program described under "New Products and Services," below), it guarantees payment of the interest and penalties.

H&R Block Premium. In addition to its regular offices, H&R Block offers tax return preparation services at H&R Block Premium offices in the United States and Canada. Appealing to taxpayers with more complicated returns, H&R Block Premium, formerly known as Executive Tax Service, stresses the convenience of appointments, year-round tax service from the same preparer and private office interviews. The number of H&R Block Premium offices increased from 528 in fiscal year 1995 to 576 in 1996. In fiscal 1996, the number of H&R Block Premium clients increased to approximately 643,200, compared to approximately 552,800 in 1995. The Company plans to continue to expand the H&R Block Premium segment of its tax return preparation business.

Electronic Filing. Electronic filing reduces the amount of time required for a taxpayer to receive a federal tax refund and provides assurance to the client that the return, as filed with the Internal Revenue Service, is mathematically accurate. If the customer desires, he or she may have his or her refund deposited by the Treasury Department directly into his or her account at a financial institution designated by the customer.

An eligible electronic filing customer may also apply for a refund anticipation loan ("RAL") at an H&R Block office. Under the 1996 RAL program, Tax Services' electronic filing customers who meet certain eligibility criteria are offered the opportunity to apply for loans from Beneficial National Bank in amounts based upon the customer's anticipated federal income tax refunds. Income tax return information is simultaneously transmitted by H&R Block to the IRS and the lending bank. Within a few days after the date of filing, a check in the amount of the loan, less the bank's transaction fee and H&R Block's tax return preparation fee and electronic filing fee, is received by the RAL customer. The IRS then directly deposits the participating customer's actual federal income tax refund into a designated account at the bank in order for the loan to be repaid.

Tax Services and its franchisees filed approximately 6,298,000 U.S. tax returns electronically in 1996, compared to 5,941,000 in fiscal 1995 and 7,538,000 in fiscal 1994. Approximately 2,361,000 refund anticipation loans were processed in 1996 by H&R Block, compared to 2,325,000 in fiscal 1995 and 5,554,000 in 1994.

In 1996, H&R Block offered a service to transmit state income tax returns electronically to state tax authorities in 33 states (compared to 28 states in fiscal 1995) and plans to continue to expand this program as more states make this filing alternative available to their taxpayers.

Income Tax Courses. H&R Block offers to the public income tax return preparation courses that teach taxpayers how to prepare their own income tax returns, as well as provide Tax Services with a source of trained income tax return preparers. During the 1996 fiscal year, 123,159 students enrolled in H&R Block's basic and advanced income tax courses, compared to 118,316 students during fiscal year 1995.

New Products and Services. In fiscal year 1996, H&R Block introduced five new products and services. Under the "Peace of Mind" Program, customers are essentially offered an extended warranty with respect to their tax returns. In addition to the Company's standard guarantee to pay penalty and interest attributable to errors made by an H&R Block preparer, under the Peace of Mind Program, the Company agrees to pay any additional taxes owed by the customer (for which liability would not ordinarily accrue) resulting from such errors, from tax law changes or from revised interpretations of Treasury Regulations. The Company also offered "Block at Home," an in-home tax preparation service for those customers who prefer both convenience and privacy, and the Last Will and Testament Kit, a simple, self-service instrument. "BlockCheck" was a new service aimed at self-preparers desiring

a second opinion about their tax returns. Finally, "Block Value Club," a consumer-friendly packaging of new services, was offered during fiscal year 1996. For a single, low fee, Value Club members received a discount on tax return preparation fees, personal copy and faxing services, a CompuServe trial membership, a discount on the H&R Block income tax return preparation course and travel discounts.

Owned and Franchised Offices. Most H&R Block offices are similar in appearance and usually contain the same type of furniture and equipment, in accordance with the specifications of Tax Services. Free-standing offices are generally located in business and shopping centers of large metropolitan areas and in the central business areas of smaller communities. All offices are open during the tax season. During the balance of the year only a limited number of offices are open, but through telephone listings, H&R Block personnel are available to provide service to customers throughout the entire year.

In fiscal year 1996, H&R Block also operated 910 offices in department stores, including 765 offices in Sears, Roebuck & Co. stores operated as "Sears Income Tax Service by H&R Block." During the 1996 tax season, the Sears' facilities constituted approximately 7.9% of the tax office locations of H&R Block. Tax Services is a party to a license agreement with Sears under which Tax Services will continue to operate in Sears locations throughout the United States. Such license agreement expires on December 31, 2004. Tax Services believes its relations with Sears to be excellent and that both parties to the license arrangement view the operations thereunder to date as satisfactory.

On April 15, 1996, there were 9,678 H&R Block offices in operation principally in all 50 states, the District of Columbia, Canada, Australia and Europe, compared to 9,703 offices in operation on April 15, 1995. Of the 9,678 offices, 4,738 were owned and operated by Tax Services and 4,940 were owned and operated by independent franchisees. Of such franchised offices, 3,341 were owned and operated by "satellite" franchisees of Tax Services (described below), 925 were owned and operated by "major" franchisees (described below) and 674 were owned and operated by satellite franchisees of major franchisees. In the United States alone, H&R Block operated 8,308 offices.

Two types of franchises have principally been granted by the Company and its subsidiaries. "Major" franchisees entered into agreements with the Company (primarily in the Company's early years) covering larger cities and counties and providing for the payment of franchise royalties based upon a percentage of gross revenues of their offices. Under the agreements, the Company granted to each franchisee the right to the use of the name "H&R Block" and provided a Policy and Procedure Manual and other supervisory services. Tax Services offers to sell furniture, signs, advertising materials, office equipment and supplies to major franchisees. Each major franchisee selects and trains the employees for his or her office or offices. Since March 1993, HRB Royalty, Inc., a wholly-owned subsidiary of Tax Services, has served as the franchisor under the major franchise agreements.

In smaller localities, Tax Services has granted what it terms "satellite" franchises. A satellite franchisee receives from Tax Services signs, designated equipment, specialized forms, local advertising, initial training, and supervisory services and, consequently, pays Tax Services a higher percentage of his or her gross tax return preparation and related service revenues as a franchise royalty than do major franchisees. Many of the satellite franchises of Tax Services are located in cities with populations of 15,000 or less. Some major franchisees also grant satellite franchises in their respective areas.

It has always been the policy of Tax Services to grant tax return preparation franchises to qualified persons without an initial franchise fee; however, the policy of Tax Services is to require a deposit to secure compliance with franchise contracts.

From time to time, Tax Services has acquired the operations of existing

franchisees and competing tax return preparation businesses and it will continue to do so if future conditions warrant such acquisitions and satisfactory terms can be negotiated.

In December 1995, Tax Services purchased the assets of Nationwide Income Tax Service Company, headquartered in Dearborn, Michigan. Nationwide operated eight company-owned offices and franchised 30 other locations, primarily in the Detroit metropolitan area.

After the conclusion of fiscal year 1996, the Company acquired Bay Colony, Ltd., a major franchise serving central and eastern Virginia and the northeast corner of North Carolina through 145 offices and 33 satellite offices.

International Operations. H&R Block prepares U.S. income tax returns in other countries, Canadian tax returns in Canada and Australian tax returns in Australia. The returns prepared at offices in countries outside of the United States constituted 16.4% of the total returns prepared by H&R Block in the last fiscal year.

H&R Block also offered the electronic filing of U.S. income tax returns at franchised offices located in Europe and the electronic filing of Australian and Canadian income tax returns at H&R Block offices in Australia and Canada, respectively.

Canadian Operations. H&R Block Canada, Inc., a Tax Services' subsidiary, and its franchisees prepared approx-

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imately 2,223,000 Canadian returns filed with Revenue Canada during the 1996 income tax filing season, compared with 2,141,000 Canadian returns prepared in the previous year. The number of offices operated by H&R Block in Canada decreased from 1,054 in fiscal year 1995 to 1,016 in fiscal year 1996.

The Company and its franchisees offer a refund discount ("Cash Back") program to their customers in Canada. The procedures which H&R Block must follow in conducting the program are specified by Canadian law. In accordance with current Canadian regulations, if a customer's tax return indicates that such customer is entitled to a tax refund, a check is issued by H&R Block to the customer for an amount which is equal to the sum of (1) 85% of that portion of the anticipated refund which is less than or equal to \$300 and (2) 95% of that portion of the refund in excess of \$300. The customer assigns to H&R Block the full amount of the tax refund to be issued by Revenue Canada. The refund check is then sent by Revenue Canada directly to H&R Block and deposited by H&R Block in its bank account. In accordance with the law, the discount is deemed to include both the tax return preparation fee and the fee for tax refund discounting. This program is financed by short-term borrowing. The number of returns discounted under the Cash Back program increased to approximately 681,000 in fiscal year 1996 from 629,000 in fiscal year 1995.

Australian Operations. The number of returns prepared by H&R Block Limited, the Company's subsidiary in Australia, and by franchisees in Australia, increased to approximately 389,000 in fiscal year 1996 from 362,000 in fiscal year 1995. The number of offices operated by H&R Block in fiscal year 1996 was 297, compared to 293 offices operated in fiscal 1995. The tax season in Australia begins in July and ends in October.

Seasonality of Business. Since most of the customers of Tax Services file their tax returns during the period from January through April of each year, substantially all of Tax Services' revenues from income tax return preparation, related services and franchise royalties are received during this period. As a result, Tax Services operates at a loss through the first nine months of its fiscal year. Historically, such losses primarily reflect payroll of year-round personnel, training of income tax preparers, rental and furnishing of tax offices, and other costs and expenses relating to preparation for the following tax season.

Service Marks and Trademarks. HRB Royalty, Inc., a Delaware corporation and a wholly-owned subsidiary of Tax Services, claims ownership of the following service marks and trademark registered on the principal register of the United States Patent and Trademark Office:

H&R Block in Two Distinct Designs  
The Income Tax People  
H&R Block Income Tax and Design  
Income Tax Saver  
Executive (when used in connection with the  
preparation of income tax returns for others)  
Rapid Refund H&R Block and Design  
Accufile

In addition, HRB Royalty, Inc., claims ownership of the following unregistered service marks and trademarks:

America's Largest Tax Service  
Nation's Largest Tax Service

Tax Services has a license to use the trade names, service marks and trademarks of HRB Royalty, Inc., in the conduct of the business of Tax Services.

Competitive Conditions. The tax return preparation and electronic filing business is highly competitive. Tax Services considers its primary source of tax return preparation competition to be the individual who prepares his own tax return. In addition, there are a substantial number of tax return preparation firms. Many of these firms and many firms not otherwise in the tax return preparation business are involved in providing electronic filing and refund anticipation loan services to the public. Commercial tax return preparers and electronic filers are highly competitive with regard to price, service and reputation for quality. Tax Services believes that in terms of the number of offices and tax returns prepared it is the largest tax return preparation firm in the United States. Tax Services also believes that in terms of the number of offices and tax returns electronically filed in fiscal year 1996, it is the largest provider of electronic filing services in the United States.

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#### FINANCIAL SERVICES

Generally. Block Financial Corporation ("BFC") is involved in the following businesses:

- (1) financial services delivered by technology and financial service delivery technology;
- (2) financial services associated with Tax Services and its typical customer; and
- (3) software.

BFC developed the CONDUCTOR(R) service, a technology that delivers financial services online through existing commercial online services, the Internet or directly through leased networks. CONDUCTOR provides a national online electronic credit card statement that provides the cardholder with access to transaction records and credit availability and the ability to download transactions from the Internet into a personal financial software program. A similar service that allows cardholders access online is offered on CompuServe's information service. Through alliances formed by BFC with various financial services providers, CONDUCTOR subscribers will use the service for electronic bill payment and discounted brokerage services, and to review other financial account statements. Financial institutions will use the system to communicate directly with their customers.

In excess of 113,400 CompuServe Visa credit cards were issued by the end of fiscal year 1996, compared to 88,600 accounts at the end of fiscal 1995. Such cards are issued under a co-branding agreement between BFC and Columbus Bank and Trust Company, Columbus, Georgia. The portfolio for such card increased from approximately \$107 million at the end of fiscal year 1995 to more than \$162 million by the end of fiscal year 1996. BFC introduced the WebCard(SM) Visa in January 1996, focusing its marketing efforts toward Internet/World Wide Web users. The number of WebCard accounts at year end was approximately 6,000. During fiscal year 1996, BFC sold approximately 19,000 H&R Block branded bank card accounts with \$17 million in outstanding balances.

BFC has developed a nonconforming mortgage origination and funding operation in which fixed and adjustable rate mortgages, including purchase money first mortgages, refinance first mortgages and second mortgages are offered to the public. Nonconforming mortgages are those that may not be offered through government-sponsored loan agencies. The loans are processed and serviced by third-party service providers. At present, BFC offers mortgages through brokers and through a few H&R Block franchisees. BFC plans to expand this business, including offering these products through Tax Service's network of company-owned offices.

BFC offers to franchisees of Tax Services lines of credit with reasonable interest rates under a program designed to better enable the franchisees to refinance existing business debt, expand or renovate offices or meet off-season cash flow needs. A franchise equity loan is a revolving line of credit secured by the H&R Block franchise and the underlying business.

BFC's software business develops and markets the Kiplinger TaxCut(R) tax preparation software package, as well as markets the Kiplinger Home Legal Advisor(SM) and Kiplinger Small Business Attorney(SM) software products. In May 1995, BFC sold MECA Software, Inc., the publisher of the Managing Your Money(R) personal finance software.

Seasonality of Business. BFC's income tax return preparation software business is seasonal, with the substantial portion of its revenues from this business generated during the tax season.

Service Marks and Trademarks. BFC claims ownership of the following service mark and trademark registered on the principal register of the United States Patent and Trademark Office:

CONDUCTOR  
TaxCut

In addition, BFC claims ownership of the following unregistered service marks:

B and Design	Small Business Attorney
Block Financial	Web
Block Financial and Design	WebAccount
CONDUCTOR and Design	WebBank
CONDUCTOR Card Review	WebBroker
CONDUCTOR.COM	WebBuyer
DittoCard	WebCard
FINANCIAL FINDER	WebCheck
FINANCIAL CONDUCTOR	WebChecking
Home Legal Advisor	WebPay
NetGuard	WebQuote

Competitive Conditions. The financial services, online financial services delivery technology and software businesses are highly competitive and consist of a large number of companies. In the software industry, Intuit, Inc. is a dominant supplier of personal financial software. In the other businesses

in which BFC competes, no single supplier can be considered to occupy a dominant position.

ITEM 2. PROPERTIES.

The executive offices of both the Company and Tax Services are located at 4400 Main Street, Kansas City, Missouri, in a multi-level building owned by Tax Services. The building was constructed in 1963, expanded in 1965, 1973 and 1981, and again expanded with the completion of a four-story addition during fiscal year 1996. Most other offices of Tax Services (except those in department stores) are operated in premises held under short-term leases providing fixed monthly rentals, usually with renewal options.

BFC's executive offices are located in leased offices at 4435 Main Street, Kansas City, Missouri.

The description of the properties of CompuServe is contained in the annual report on Form 10-K/A of CompuServe Corporation for the fiscal year ended April 30, 1996, in the section entitled "Business and Properties," and such description is incorporated herein by reference.

ITEM 3. LEGAL PROCEEDINGS.

In June 1996, a purported shareholder class action complaint was filed against CompuServe and the Company in the Court of Common Pleas, Franklin County, Ohio, in a case entitled Greenfield v. CompuServe Corporation, et al. A second purported shareholder class action suit was filed in July 1996 against CompuServe and the Company in the United States District Court for the Southern District of Ohio in a case entitled Romine v. CompuServe Corporation, et al. A third purported shareholder class action suit was filed in August 1996 against CompuServe, the Company and the lead underwriters in CompuServe's initial public offering of its common stock in April 1996 (the "IPO") in the United States District Court for the District of Minnesota in a case entitled Acker v. CompuServe Corporation, et al. The complaints in these three cases also name certain officers and directors of CompuServe at the time of the IPO as additional defendants. Each suit alleges 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 the IPO. The Greenfield suit also alleges similar violations of the Ohio Securities Code and common law of negligent misrepresentation. Relief sought is unspecified, but includes pleas for rescission and damages. In August 1996, an action for discovery was filed solely against CompuServe on behalf of a shareholder in the Court of Common Pleas, Franklin County, Ohio, in a matter entitled Schnipper v. CompuServe Corporation, seeking factual support for a possible fourth claim relating to IPO disclosures. The defendants intend to vigorously defend these suits.

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

No matters were submitted to a vote of security holders, through the solicitation of proxies or otherwise, during the fourth quarter of the fiscal year ended April 30, 1996.

ITEM 4A. EXECUTIVE OFFICERS OF THE REGISTRANT.

The names, ages and principal occupations (for the past five years) of the executive officers of the Company, each of whom has been elected to serve at the discretion of the Board of Directors of the Company, are:

Name and age	Office(s)
Henry W. Bloch (74)	Chairman of the Board since August 1992; Chairman of the Board and Chief Executive Officer from August 1989 through July 1992; Member of the Board of Directors since 1955.
Frank L. Salizzoni (58) (1)	President and Chief Executive Officer since June 1996; Member of the Board of Directors since 1988.

See Note 1.

George T. Robson (49) Senior Vice President and Chief Financial Officer since January 1996; Treasurer since June 1, 1996; See Note 2.

William P. Anderson (47) President of Block Financial Corporation since May 1992; Senior Vice President and Chief Financial Officer from September 1994 until September 1995; Vice President,

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Corporate Development and Chief Financial Officer from August 1992 until September 1994; Vice President, Corporate Development from December 1991 until August 1992; See Note 3.

Ozzie Wenich (53) President, H&R Block International, since June 1, 1996; Vice President, Finance and Treasurer from October 1994 through May 1996; Vice President, Corporate Controller and Treasurer from March 1994 until October 1994; Vice President and Corporate Controller from September 1985 until March 1994.

Thomas L. Zimmerman (46) President, H&R Block Tax Services, Inc., since June 1, 1996; Executive Vice President, Field Operations, H&R Block Tax Services, Inc. from May 1994 through May 1996; Senior Vice President, Central Tax Services, H&R Block Tax Services, Inc., from April 1993 through April 1994; Vice President, Director of Central Tax Operations, H&R Block, Inc., from May 1992 through March 1993; Regional Director, H&R Block, Inc., from 1979 through April 1992.

Robert A. Weinberger (52) Vice President, Government Relations, since March 18, 1996. See Note 4.

Cheryl L. Givens (30) Assistant Vice President and Corporate Controller since June 1, 1996; Corporate Accounting Manager from May 1994 through May 1996; Special Projects Accountant from March 1993 through April 1994. See Note 5.

Note 1: The Board of Directors of the Company, at its meeting on June 19, 1996, elected Frank L. Salizzoni as President and Chief Executive Officer of the Company, effective immediately. Mr. Salizzoni succeeded Richard H. Brown, who resigned as President, Chief Executive Officer and a director of the corporation upon acceptance of such resignation by the Board of Directors on June 19, 1996.

Mr. Salizzoni was President and Chief Operating Officer of USAir Group, Inc. and USAir, Inc. from March 1994 to April 1996 and Executive Vice President - Finance, USAir, Inc. from 1990 until March 1994.

Mr. Brown, age 49, served as President and Chief Executive Officer of the Company and as a member of its Board of Directors from August 1995 until June 19, 1996. He served as Vice Chairman of Ameritech Corporation from 1993 until August 1995 and as President and Chief Executive Officer of Illinois Bell Telephone Co., a subsidiary of Ameritech Corporation, from 1990 until 1993.

Note 2: Mr. Robson was Senior Vice President of Unisys Corporation from April 1991 until January 1996 and Chief Financial Officer of such corporation from 1990 until January 1996.

Note 3: Mr. Anderson was a partner in KPMG Peat Marwick, accounting firm, from 1984 until December 1991, in Atlanta, Georgia, serving in various capacities, including responsibility for the firm's national corporate finance consulting practice.

Note 4: Mr. Weinberger was Director, Washington Affairs, Unilever United States, Inc., from February 1991 until April 1995.

Note 5: Ms. Givens was Senior Auditor, Price Waterhouse, from July 1991 until March 1993.

## PART II

### ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

The information called for by this item is contained in the Company's annual report to security holders for the fiscal year ended April 30, 1996, under the heading "Common Stock Data," and is hereby incorporated by reference. The Company's Common Stock is traded principally on the New York Stock Exchange. The Company's Common Stock is also traded on the Pacific Stock Exchange. On June 10, 1996, there were 35,634 stockholders of the Company.

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### ITEM 6. SELECTED FINANCIAL DATA.

	Year Ended April 30				
	1996	1995	1994	1993	1992
	----	----	----	----	----
	In thousands, except per share amounts and number of shareholders				
FOR THE YEAR:					
Total revenues	\$1,679,601	\$1,360,318	\$1,238,677	\$1,074,263	\$986,109
Net earnings from continuing operations before charge for purchased research and development	\$ 177,168	\$ 190,767	\$ 189,067	\$ 171,017	\$153,744
Net earnings from continuing operations(1)	\$ 177,168	\$ 107,259	\$ 163,995	\$ 171,017	\$153,744
Net earnings(1)	\$ 177,168	\$ 107,259	\$ 200,528	\$ 180,705	\$162,253
AT YEAR END:					
Total assets	\$1,755,891	\$1,097,313	\$1,093,245	\$1,017,601	\$973,773
Cash and marketable securities	\$ 745,693	\$ 444,981	\$ 620,091	\$ 439,526	\$391,386
Stockholder's equity	\$1,039,593	\$ 685,865	\$ 707,875	\$ 660,488	\$613,713
Shares outstanding	103,417	104,863	106,149	106,355	106,598
Number of shareholders	36,634	38,053	35,514	33,457	31,520
MEASUREMENTS:					
Per share of common stock:					
Net earnings from continuing operations before charge for purchased research and development	\$1.67	\$1.80	\$1.77	\$1.59	\$1.41
Net earnings from continuing operations(1)	\$1.67	\$1.01	\$1.54	\$1.59	\$1.41
Net earnings(1)	\$1.67	\$1.01	\$1.88	\$1.68	\$1.49
Cash dividends declared	\$1.27 1/4	\$1.21 3/4	\$1.09	\$ .97	\$ .85 1/2
Net tangible book value	\$9.46	\$5.79	\$6.03	\$4.93	\$4.61
Return on total revenues(2)	10.5%	14.0%	15.3%	15.9%	15.6%
Return on beginning stockholders' equity	25.8%	15.2%	30.8%	29.4%	28.3%

(1) Fiscal 1995 and 1994 include charges to earnings of \$85,508 (\$.79 per share) and \$25,072 (\$.24 per share), respectively, for purchased research and development in connection with acquisitions which are not deductible for income tax purposes.

(2) Before charge for purchased research and development.

### ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

#### RESULTS OF OPERATIONS

#### SIGNIFICANT EVENTS SUBSEQUENT TO FISCAL 1996

On July 16, 1996, the Company's Board of Directors approved a plan to spin off the Company's remaining interest in CompuServe Corporation ("CompuServe") on or about November 1, 1996. The spin-off was subject to, among other things, shareholder approval at the Company's annual meeting on September 11, 1996 and a favorable ruling from the Internal Revenue Service as to the tax-free nature of the distribution.

On August 28, 1996, the Board of Directors decided not to present the proposed spin-off to shareholders at the September 1996 annual meeting. This decision was based, in part, on CompuServe's reported first quarter and projected second quarter losses, market uncertainties related to the online industry and the planned September introduction of new interfaces for CompuServe Information Service and WOW!.

#### SIGNIFICANT EVENTS IN FISCAL 1996

On February 20, 1996, the Company announced its intention to fully separate CompuServe, its wholly owned subsidiary. The initial phase of this separation was completed on April 19, 1996 through CompuServe's initial public offering of 18,400,000 shares of its common stock at \$30.00 per share (the "IPO"), which reduced the

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Company's ownership in CompuServe to just over 80%. In its February announcement, the Company stated its intention to distribute its remaining ownership interest in CompuServe by means of a spin-off or split-off within approximately 12 months after the IPO.

In August 1995, the Company's Board of Directors approved a series of investment initiatives for CompuServe designed to enhance its long-term competitiveness and take advantage of accelerating growth opportunities in the market for online services. These initiatives included the launch of a new consumer online service, a simplified and less expensive pricing structure, two new interfaces, infrastructure expenditures and expansion of Internet activities offered through the various online services. This undertaking reduced the Company's liquidity during 1996 and negatively impacted net earnings.

On May 1, 1995, the Company sold its wholly owned subsidiary, MECA Software, Inc. ("MECA"), exclusive of its rights to publish TaxCut, for \$35 million. The sale resulted in a pretax gain of \$12.4 million.

#### SIGNIFICANT EVENTS IN FISCAL 1995

On October 26, 1994, the IRS announced it would eliminate the Direct Deposit Indicator ("DDI") as a result of concerns relating to fraudulent tax refund claims. Previously, the IRS used the DDI to notify the electronic filer after receiving the taxpayer's electronically filed tax return that the direct deposit of the refund would be honored. The DDI was a key element of the Refund Anticipation Loan ("RAL") program because it minimized loan losses and thus encouraged participating financial institutions to make RALs under relatively favorable terms to taxpayers. RALs are loans made by financial institutions that are expected to be retired by an income tax refund. In addition to the removal of the DDI, the IRS instituted other changes during the tax season to curb possible fraud in the tax system. As a result of these IRS changes, more stringent criteria were adopted in the loan approval process and the cost to the consumer increased. These changes resulted in a 21% decline in the number of returns filed electronically and a 50% decline in the number of RALs processed by company-owned and franchised offices. Due to these changes, the Company experienced a decline in revenues for the first time in its 40-year history, and only the second decline in pretax earnings.

On April 4, 1995, the Company acquired SPRY, Inc. ("SPRY") for total consideration of \$101.6 million, including cash, Convertible Preferred Stock and options for Convertible Preferred Stock. In connection with the acquisition, the Company recorded a charge to earnings of \$83.5 million, or \$.79 per share, for purchased research and development. The Company contributed its investment in SPRY to CompuServe on January 30, 1996.

#### NEW ACCOUNTING STANDARDS

On May 1, 1995, the Company adopted Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for

Long-Lived Assets to Be Disposed Of." This Statement establishes accounting standards for the impairment of long-lived assets, certain identifiable intangibles and goodwill related to those assets to be held and used. In connection with the adoption of this Statement, the Company recognized an impairment loss of \$8.4 million, representing the amount by which the carrying value of the tax preparation software assets at Block Financial Corporation, including goodwill, exceeded the estimated fair value of those assets. The impairment loss is included in other expenses in the consolidated statements of earnings.

The Company changed its method of accounting for direct response advertising costs to conform with the American Institute of Certified Public Accountants Statement of Position 93-7, "Reporting on Advertising Costs," effective May 1, 1995. Under this accounting method, direct response advertising costs that meet certain criteria are capitalized and amortized on a cost-pool-by-cost-pool basis over the period during which the future benefits are expected to be received. Deferred subscriber acquisition costs are being amortized over 24 months, beginning the month after such costs are incurred, with 60% amortized in the first 12 months. The net effect of the change in accounting increased assets by \$96.6 million at April 30, 1996, and increased net earnings by \$60.0 million and net earnings per share by \$.57 for the year ended April 30, 1996.

In October 1995, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation," effective for transactions entered into in fiscal years beginning after December 15, 1995. This Statement requires the disclosure of the estimated fair value of stock-based compensation arrangements with employees and encourages, but does not require, the recognition of such expense. The Company does not intend to adopt the recognition provisions of this Statement. Therefore, the adoption of this Statement will have no effect on the Company's financial condition or results from operations.

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1996 COMPARED TO 1995

CONSOLIDATED RESULTS

Revenues increased 23.5% to a record \$1.680 billion compared to \$1.360 billion in 1995. Net earnings increased 65.2% to \$177.2 million from \$107.3 million in the prior year. Net earnings per share increased to \$1.67 from \$1.01 in 1995. Exclusive of the charge for purchased research and development in 1995 associated with the acquisition of SPRY, net earnings per share decreased to \$1.67 in 1996 from \$1.80 in 1995.

Additional information on each of the Company's operating segments follows.

TAX SERVICES

Revenues increased 13.9% to \$831.5 million from \$729.7 million in the prior year. Tax preparation fees increased \$66.6 million, or 13.1%, as a result of a 3.7% increase in the number of returns prepared by company-owned offices, with the remainder attributable to price increases. In the United States, fees from electronic filing were up \$13.6 million, or 16.7%, due to a 1.6% increase in returns electronically filed by company-owned offices and an increase in state electronic filing fees, resulting from an increase in the number of states where electronic filing is offered and package pricing. Royalties increased by \$5.8 million, or 6.4%, reflecting improved results reported by franchises as a result of a 2.9% increase in the number of returns prepared by franchises, increases in pricing and greater revenues from electronic filing.

Pretax earnings increased 31.8% to \$194.8 million from \$147.7 million in 1995. The pretax margin was 23.4% compared to 20.2% in the prior year. The margin improvement was primarily due to certain payroll and occupancy and

equipment expenses which did not increase proportionately with revenues, and management efforts to contain normal operating expenses. Additionally, certain expenses were incurred in 1995 associated with the changes in the electronic filing program described above.

#### COMPUTER SERVICES

Revenues increased 36.1% to \$793.2 million from \$582.8 million last year due to increases in both Online Services and Network Services revenues. Online Services revenues increased 41.8% over the prior year primarily as a result of an increase in the number of subscribers. The number of CompuServe Information Service ("CIS") subscribers at April 30, 1996, exclusive of the Japanese licensee, increased 43.9% to 3.2 million. This increase was offset by an 11.3% decrease in average monthly CIS revenue per subscriber to \$17.01 for 1996 from \$19.17 for 1995, caused by a price reduction implemented in February 1995 and a new pricing structure introduced in September 1995. Network Services revenues increased 34.6% to \$198.8 million from \$147.7 million in 1995 due to an increase in the number of network customers and increased usage by existing customers. The number of network customers increased 30.0% over last year to 966. Network customer hours increased 43.1% to 45.1 million hours.

Pretax earnings decreased 41.5% to \$87.8 million from \$150.1 million in 1995. The decrease in pretax earnings resulted from several factors. Costs directly associated with service revenues increased \$156.3 million, or 67.6%, as a result of online subscriber hours more than doubling from 50.3 million hours in 1995 to 123.0 million hours in 1996. Marketing expenses increased \$70.4 million, or 67.1%, due to increased general consumer advertising on television and in periodicals, expanded international marketing efforts, the launch of WOW! and special event promotions, and advertising expenses incurred by SPRY. Depreciation and amortization expense increased \$36.0 million, or 84.5%, as a result of increased capital expenditures and the amortization of goodwill related to the April 1995 SPRY acquisition. Product development costs increased \$9.4 million, or 49.5%, due primarily to the acquisition of SPRY, costs related to the new WOW! online service and enhancements to the CIS interface. The pretax margin was 11.1% compared to 25.8% in the prior year.

#### FINANCIAL SERVICES

Revenues increased 36.1% to \$48.9 million from \$35.9 million in 1995. Excluding the \$12.4 million gain on the sale of MECA in 1996 and MECA's revenues in 1995, revenues increased \$10.6 million, or 41.1%, over the prior year. Credit card revenues were up \$10.9 million, or 79.3%, primarily due to an increase in the number of accounts and related revolving balances.

Pretax earnings were \$5.1 million, compared to a loss of \$5.8 million in the prior year. Exclusive of the \$12.4 million gain on the sale of MECA and an impairment loss of \$8.4 million recognized on the tax preparation software business assets in 1996, and MECA's operating loss in 1995, pretax earnings for 1996 were \$1.1 million compared to a pretax loss of \$3.4 million in 1995. The improvement over 1995 is attributable to both credit card and personal tax software operations.

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#### CORPORATE INVESTMENT INCOME

Corporate investment income declined 55.8% to \$10.5 million from \$23.7 million in 1995, which is attributable to two factors. Fewer funds were available for investment this year due to strategic investments made in CompuServe, described previously. Additionally, investment income in 1995 included gains of \$4.9 million from the sale of securities during the fourth quarter.

#### CORPORATE AND ADMINISTRATIVE EXPENSES

Corporate and administrative expenses increased 4.9% to \$12.9 million compared to \$12.3 million in 1995, primarily due to interest expense on corporate borrowings in 1996. There were no corporate borrowings during 1995.

## INCOME TAX EXPENSE

The effective tax rate decreased to 37.9% compared to 51.2% in 1995. The decrease resulted from a charge for purchased research and development in 1995 that is not deductible for income tax purposes.

## 1995 COMPARED TO 1994

## CONSOLIDATED RESULTS

Revenues increased 9.8% to a record \$1.360 billion from \$1.239 billion in 1994. Net earnings decreased 46.5% to \$107.3 million from \$200.5 million in 1994. Net earnings per share decreased to \$1.01 from \$1.88 in 1994. However, exclusive of the charges for purchased research and development and discontinued operations, net earnings per share increased to \$1.80 from \$1.77 in 1994.

Additional information on each of the Company's operating segments follows.

## TAX SERVICES

Revenues decreased 3.4% to \$729.7 million from \$755.5 million in 1994. The decrease in revenues was due primarily to a 31.1% decline in electronic filing fees and a 49.5% decline in RAL license fees received from participating institutions. These decreases resulted from IRS actions discussed earlier. Tax return preparation fees increased 5.7% to \$517.0 million in 1995.

Pretax earnings decreased 25.7% to \$147.7 million from \$198.7 million in 1994. The decrease resulted from the decline in electronic filing revenues and greater expenses associated with the changes in the electronic filing program. Pretax earnings as a percentage of revenues was 20.2% in 1995 compared to 26.3% in 1994.

## COMPUTER SERVICES

Revenues increased 35.6% to \$582.8 million from \$429.9 million in 1994. The increase was due to growth in Online Services and Network Services revenues. Online Services revenues increased 48.3%, due primarily to the increase in the number of subscribers. The number of CIS subscribers, exclusive of the Japanese licensee, increased 61.2% to 2.2 million. The average monthly revenue per subscriber in 1995 was \$19.17 compared to \$19.35 in 1994, reflecting the impact of a price reduction in February 1994, partially offset by higher usage. Network Services revenues increased 35.0% due to an increase in the number of network customers and greater usage by existing customers. The number of network customers increased 26.8% to 743. Network customer hours increased 57.2% to 31.5 million hours.

Pretax earnings increased 46.7% to \$150.1 million from \$102.3 million in 1994. The pretax margin was 25.8% in 1995 compared to 23.8% in 1994. The record results were attributable primarily to the strong performances of the Online and Network Services divisions. The increase in the pretax margin resulted mainly from the exceptional increases in revenues that outpaced expenses, a significant portion of which are not directly associated with revenues.

## FINANCIAL SERVICES

Revenues decreased 14.7% to \$35.9 million from \$42.1 million in 1994. The pretax loss in 1995 was \$5.8 million, compared to pretax earnings of \$9.4 million in 1994. The decline in revenues and pretax earnings resulted primarily from the decision not to make investments in RALS due to IRS changes that increased the RAL risk.

## CORPORATE INVESTMENT INCOME

Corporate investment income improved 55.4% to \$23.7 million from \$15.3 million in 1994. Corporate investment income in 1995 included gains of \$4.9 million from the sale of securities during the fourth quarter. Exclusive of such

gains, corporate investment income increased 23.4% over 1994 and resulted primarily from more funds

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being available for investment in 1995, including the proceeds from the sale of Interim Services Inc. received in the fourth quarter of fiscal 1994.

#### CORPORATE AND ADMINISTRATIVE EXPENSES

Corporate and administrative expenses decreased 29.8% to \$12.3 million from \$17.5 million in 1994. The decrease resulted from the allocation of certain employee benefit expenses to operating segments and reduced discretionary corporate expenses related to community welfare.

#### INCOME TAX EXPENSE

The effective tax rate increased to 51.2% compared to 42.1% in 1994. The increase resulted from a charge for purchased research and development that is not deductible for income tax purposes.

#### LIQUIDITY AND CAPITAL RESOURCES

The Company's financial position remains strong, with cash and marketable securities of \$745.7 million at April 30, 1996, compared to \$445.0 million and \$620.1 million at the end of 1995 and 1994, respectively. Cash and marketables increased in 1996 due to proceeds from the IPO of \$518.8 million, offset by a significant increase in capital expenditures and costs associated with subscriber acquisition and marketing at CompuServe. The significant decrease in cash and marketables in 1995 as compared to 1994 was due to significant share repurchases and capital expenditures during 1995 totaling \$114.9 million and \$123.3 million, respectively, and cash paid in connection with the acquisition of SPRY of \$41.8 million. Stockholders' equity at April 30, 1996, 1995 and 1994 was \$1,039.6 million, \$685.9 million and \$707.9 million, respectively.

The Company maintains lines of credit to support short-term borrowing facilities in the United States and Canada. The balance of these lines fluctuates according to the amount of borrowing outstanding during the year. From January through April each year, the Company uses Canadian borrowings to purchase refunds due its clients from Revenue Canada. Maturities of these borrowings range from 30 to 90 days. Collection of receivables from Revenue Canada occurs substantially in the last month of the fiscal year and the first quarter of the subsequent fiscal year. Net accounts receivable at April 30, 1996 and 1995 include amounts due from Revenue Canada of \$11.5 million and \$16.4 million, respectively. Prior to 1995, Block Financial Corporation ("BFC") used borrowings to purchase an interest in a trust to which certain RALs made by Mellon Bank (DE) National Association were sold. BFC purchased an interest of just under 50% in those RALs subject to its agreement with Mellon. BFC financed these purchases through short-term borrowing in the third and fourth quarters of fiscal 1994.

The Company maintains a year-round \$150 million line of credit to primarily support the funding of credit card receivables by BFC and a \$25 million line of credit to fulfill short-term cash requirements at CompuServe. At April 30, 1996 and 1995, net credit card receivables amounted to \$162.3 million and \$122.5 million, respectively, and outstanding commercial paper related to credit card receivables amounted to \$72.7 million and \$49.4 million, respectively. Additionally, in order to meet CompuServe's substantial funding requirements during fiscal 1996, the Company obtained a \$200 million corporate credit facility in December 1995. This line of credit was repaid and expired at the end of fiscal 1996.

With the exception of corporate borrowings in 1996, the Company has historically generated sufficient funds to provide for the off-season working capital needs of the Company, which experiences losses for the period May through December, capital investments, the operating and expansion needs of its

subsidiaries, cash for acquisitions and the maintenance of a strong dividend policy. Management believes the Company will continue to generate sufficient funds internally to finance its investment program and normal working capital requirements outside of CompuServe. Furthermore, management believes the proceeds from the IPO will be sufficient to meet presently anticipated funding requirements at CompuServe, including capital expenditures and cash outlays for subscriber acquisition and marketing, for approximately 18 months to two years. The Company will continue to use short-term financing in the United States to finance temporary liquidity needs and various financial activities conducted by BFC, and in Canada to finance the Canadian refund discount program.

In connection with the investment initiatives for CompuServe, the Company expects to spend approximately \$175 million for subscriber acquisition and marketing and \$190 million for capital expenditures in 1997. Capital expenditures include approximately \$50 million for deployment of TCP/IP (Transmission Control Protocol/Internet Protocol, a suite of network protocols that allows computers with different architectures and operating system software to communicate with other computers on the Internet) across CompuServe's network. In addition, management estimates that the full deployment of TCP/IP across CompuServe's network will cost approximately \$200 million over the next three years, beginning in 1997. Management anticipates that capital

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expenditures will continue to increase in the near term due to equipment replacements and purchases of additional equipment at CompuServe to support the increased base of online subscribers, growth in corporate network customers and additional facilities.

In February 1996, the Company's Board of Directors stated its intention to maintain the quarterly dividend at \$.32 per share until the distribution of CompuServe was completed, subject to, among other things, developments in the Company's business and results of operations. At that time, the Board declared a dividend in the amount of \$.32 per share payable April 1, 1996 to shareholders of record on March 11, 1996. On June 19, 1996, the Board of Directors declared a quarterly dividend of \$.32 per share payable on October 1, 1996 to shareholders of record on September 10, 1996. On July 16, 1996, the Board announced its plan to reduce the cash dividend to \$.20 per quarter following the spin-off of CompuServe. The actual declaration of dividends will depend on the future results of operations, capital requirements and the Company's financial condition, as well as other factors considered appropriate by the Board of Directors.

The Company announced in December 1993 its intention to repurchase from time to time up to 10 million of its shares on the open market. During 1996, the Company repurchased 1.8 million shares at an aggregate cost of \$71.9 million. In July 1996, the Company announced its intention to repurchase up to 10 million additional shares in the open market over a two-year period following the spin-off of CompuServe. Such authorization is in addition to the 1993 authorization.

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## ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

### INDEPENDENT AUDITORS' REPORT

Board of Directors and Shareholders  
H&R Block, Inc.  
Kansas City, Missouri

We have audited the accompanying consolidated balance sheets of H&R Block, Inc. and subsidiaries as of April 30, 1996 and 1995, and the related consolidated

statements of earnings and cash flows for each of the three years in the period ended April 30, 1996. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of H&R Block, Inc., and subsidiaries as of April 30, 1996 and 1995, and the results of their operations and their cash flows for each of the three years in the period ended April 30, 1996, in conformity with generally accepted accounting principles.

As discussed in the notes to the consolidated financial statements, the Company changed its method of accounting for its marketable securities during the year ended April 30, 1995 and advertising costs during the year ended April 30, 1996.

/s/ Deloitte & Touche LLP

Kansas City, Missouri

June 18, 1996, except for the "Subsequent Events" note to the consolidated financial statements as to which the date is September 26, 1996.

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H&R Block, Inc.

CONSOLIDATED STATEMENTS OF EARNINGS

Amounts in thousands, except per share amounts

	Year Ended April 30		
	1996	1995	1994
	----	----	----
REVENUES:			
Service revenues	\$1,543,104	\$1,233,815	\$1,118,566
Royalties	99,717	92,436	96,766
Investment income	10,972	23,703	15,256
Other income	25,808	10,364	8,089
	-----	-----	-----
	1,679,601	1,360,318	1,238,677
	-----	-----	-----
EXPENSES:			
Employee compensation and benefits	517,727	442,504	404,367
Occupancy and equipment	402,835	295,528	242,391
Marketing and advertising	113,204	84,905	60,783
Supplies, freight and postage	95,621	71,542	60,182
Other	264,920	162,335	162,698
Purchased research and development	—	83,508	25,072
	-----	-----	-----
	1,394,307	1,140,322	955,493
	-----	-----	-----
Earnings from continuing operations before taxes on earnings	285,294	219,996	283,184
Taxes on earnings	108,126	112,737	119,189
	-----	-----	-----
Net earnings from continuing operations	177,168	107,259	163,995
Net earnings from discontinued operations (less applicable taxes of \$8,706)	—	—	9,268
Net gain on sale of discontinued operations (less applicable taxes of \$16,711)	—	—	27,265
	-----	-----	-----
Net earnings	\$ 177,168	\$ 107,259	\$ 200,528
	=====	=====	=====

Earnings per share from continuing operations	\$1.67	\$1.01	\$1.54
	=====	=====	=====
Earnings per share	\$1.67	\$1.01	\$1.88
	=====	=====	=====

See notes to consolidated financial statements.

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H&R Block, Inc.

CONSOLIDATED BALANCE SHEETS

Amounts in thousands, except share data

	April 30	
	1996	1995
	-----	-----
ASSETS		
CURRENT ASSETS:		
Cash (including certificates of deposit of \$22,093 and \$25,781)	\$ 339,055	\$ 90,248
Marketable securities	389,557	263,239
Receivables, less allowance for doubtful accounts of \$7,848 and \$7,274	333,734	260,198
Prepays and other current assets	59,912	38,659
	-----	-----
Total current assets	1,122,258	652,344
INVESTMENTS AND OTHER ASSETS:		
Investments in marketable securities	17,081	91,494
Excess of cost over fair value of net tangible assets acquired, less accumulated amortization of \$27,825 and \$46,770	61,141	78,205
Deferred subscriber acquisition costs, net of amortization	96,636	--
Other	59,201	47,822
	-----	-----
	234,059	217,521
PROPERTY AND EQUIPMENT, at cost less accumulated depreciation and amortization of \$315,195 and \$227,056	399,574	227,448
	-----	-----
	\$1,755,891	\$1,097,313
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Notes payable	\$ 72,651	\$ 49,421
Accounts payable, accrued expenses and deposits	201,320	145,909
Accrued salaries, wages and payroll taxes	109,870	71,281
Accrued taxes on earnings	94,406	111,375
	-----	-----
Total current liabilities	478,247	377,986
DEFERRED INCOME TAXES	46,700	--
OTHER NONCURRENT LIABILITIES	38,222	33,462
MINORITY INTEREST	153,129	--

## STOCKHOLDERS' EQUITY:

Common stock, no par, stated value \$.01 per share:		
authorized 200,000,000 shares	1,089	1,089
Convertible preferred stock, no par, stated		
value \$.01 per share: authorized 500,000 shares	4	4
Additional paid-in capital	504,694	140,578
Retained earnings	747,212	700,423
	-----	-----
	1,252,999	842,094
Less cost of common stock in treasury	213,406	156,229
	-----	-----
	1,039,593	685,865
	-----	-----
	\$1,755,891	\$1,097,313
	=====	=====

See notes to consolidated financial statements.

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H&amp;R Block, Inc.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

Amounts in thousands

	Year Ended April 30		
	1996	1995	1994
	-----	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net earnings	\$ 177,168	\$ 107,259	\$ 200,528
Adjustments to reconcile net earnings to net cash provided:			
Depreciation and amortization	111,240	67,684	57,117
Amortization of deferred subscriber acquisition costs	22,585		
Deferred subscriber acquisition costs	(119,221)		
Provision for deferred taxes on earnings	52,639	(734)	(6,775)
Gain on sale of subsidiaries	(12,445)	(2,796)	(27,265)
Purchased research and development		83,508	25,072
Net gain on sales of marketable securities	(1,142)	(6,664)	(307)
Other noncurrent liabilities	4,760	2,845	5,197
Changes in assets and liabilities net of effects of purchase and disposition of subsidiaries:			
Receivables	(79,295)	(87,995)	2,284
Prepays and other current assets	(25,373)	(1,735)	(412)
Net assets of discontinued operations			(17,370)
Accounts payable, accrued expenses and deposits	58,247	(24,994)	31,000
Accrued salaries, wages and payroll taxes	39,127	15,722	14,659
Accrued taxes on earnings	(17,554)	(27,737)	3,740
Net cash provided by operating activities	(210,736)	(124,363)	(287,468)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of marketable securities	(880,304)	(1,904,653)	(1,522,609)
Maturities of marketable securities	501,925	1,837,584	891,299
Sales of marketable securities	329,132	299,702	448,978
Purchases of property and equipment, net	(264,491)	(123,337)	(83,744)
Excess of cost over fair value of net tangible assets acquired, net of cash acquired	(18,675)	(47,773)	(46,570)
Proceeds from sale of subsidiaries	35,000	5,195	188,500
Proceeds from term loan to former subsidiary			30,000
Other, net	(16,577)	(5,856)	(24,198)
Net cash provided by (used in) investing activities	(313,990)	60,862	(118,344)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Repayments of notes payable	(2,252,761)	(1,856,873)	(2,435,254)
Proceeds from issuance of notes payable	2,275,991	1,906,294	2,398,087
Net proceeds from sale of stock by subsidiary	518,819		
Dividends paid	(131,263)	(128,838)	(115,451)
Payments to acquire treasury shares	(71,897)	(114,900)	(68,899)
Proceeds from stock options exercised	13,172	57,997	50,319
Net cash provided by (used in) financing activities	352,061	(136,320)	(171,198)
Net increase (decrease) in cash	248,807	48,905	(2,074)
Cash at beginning of the year	90,248	41,343	43,417
Cash at end of the year	\$ 339,055	\$ 90,248	\$ 41,343
	=====	=====	=====
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Income taxes paid	\$ 73,041	\$ 141,062	\$ 131,124
Interest paid	5,898	4,064	4,169

See notes to consolidated financial statements.

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H&amp;R BLOCK INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Dollar in thousands, except share data

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of operations: H&R Block, Inc. (the "Company") provides a variety of services to the general public, principally in the United States, but also in Canada, Australia and other foreign countries. Approximately one-half of total revenues are generated from tax return preparation, electronic filing of tax returns and other tax-related services. The Company provides computer-based information and communication services to businesses and individual owners of personal computers through its CompuServe Corporation ("CompuServe") subsidiary. The Company also offers credit cards and personal productivity software.

Principles of consolidation: The consolidated financial statements include the accounts of the Company and all majority-owned subsidiaries. All material intercompany transactions and balances have been eliminated.

Reclassifications: Reclassifications have been made to prior year amounts to conform with the current year presentation.

Management estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Marketable securities: On May 1, 1994, the Company adopted Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities." This Statement addresses the reporting for debt and equity securities by requiring such investments to be classified in held-to-maturity, available-for-sale or trading categories. All marketable debt and equity securities were classified as available-for-sale securities on the date of adoption, and are carried at market value, based on quoted prices, with unrealized gains and losses included in stockholders' equity. The adoption of the Statement resulted in an increase in stockholders' equity of \$5,526, net of taxes. In accordance with the Statement, prior years' financial statements have not been restated.

The cost of marketable securities sold is determined on the specific identification method and realized gains and losses are reflected in earnings.

Foreign currency translation: Assets and liabilities of the Company's foreign branches and subsidiaries are translated into U.S. dollars at exchange rates prevailing at the end of the year. Revenue and expense transactions are translated at the average of exchange rates in effect during the period. Translation gains and losses are recorded directly to stockholders' equity.

Deferred subscriber acquisition costs: Effective May 1, 1995, the Company changed its method of accounting for direct response advertising costs to conform with the American Institute of Certified Public Accountants Statement of Position 93-7, "Reporting on Advertising Costs." Under this accounting method, direct response advertising costs that meet certain criteria are capitalized and amortized on a cost-pool-by-cost-pool basis over the period during which the future benefits are expected to be received. The Company amortizes its subscriber acquisition costs over 24 months, beginning the month after such costs are incurred, with 60% amortized in the first 12 months. At April 30, 1996, subscriber acquisition costs consist principally of direct mail costs, including mailing lists, postage, related payroll and outsourcing costs, payments to OEMs, and disk and CD-ROM costs, all of which result in a direct revenue-generating response. The net effect of the change in accounting

increased assets by \$96,636 at April 30, 1996, and increased net earnings by \$60,011 and net earnings per share by \$.57 for the year ended April 30, 1996. The Company expenses advertising costs not classified as direct response the first time the advertising takes place.

Excess of cost over fair value of net tangible assets acquired: The excess of cost of purchased subsidiaries, operating offices and franchises over the fair value of net tangible assets acquired is being amortized over periods of up to 40 years on a straight-line basis.

At each balance sheet date, a determination is made by management to ascertain whether intangibles have been impaired based on several criteria, including, but not limited to, revenue trends, undiscounted operating cash flows and other operating factors.

In connection with the adoption of Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," the Company reviewed the assets and related goodwill of its personal tax preparation software business for impairment. As a result, the Company recognized an impairment loss of \$8,389. The impairment loss represents the amount by which the carrying value of the tax preparation software business assets, including goodwill, exceeded the estimated fair value of those assets. The estimated fair value was determined as the present value of estimated expected future cash flows using a discount rate appropriate for the risks associated with the personal software industry. The loss is included in other expenses in the consolidated statements of earnings.

Depreciation and amortization: Buildings and equipment are depreciated over the estimated useful lives of the assets using the straight-line method. Leasehold improvements are amortized over the period of the respective lease using the straight-line method.

Notes payable: The Company uses short-term borrowings to finance temporary liquidity needs and various financial activities conducted by its subsidiaries. The weighted average interest rate of notes payable at April 30, 1996 was 5.4%.

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Revenue recognition: Service revenues are recorded in the period in which the service is performed. The Company records franchise royalties, based upon the contractual percentages of franchise revenues, in the period in which the franchise provides the service.

Taxes on earnings: The Company and its subsidiaries file a consolidated federal income tax return on a calendar year basis. Therefore, the current liability for taxes on earnings recorded in the balance sheet at each year-end consists principally of taxes on earnings for the period January 1 to April 30 of the respective year. Deferred taxes are provided for temporary differences between financial and tax reporting, which consist principally of differences between accrual and cash basis accounting, deferred subscriber acquisition costs, deferred compensation and depreciation.

Prior to May 1, 1993, taxes on earnings were determined under Accounting Principles Board Opinion Number 11, whereby the income tax provision was calculated using the deferred method. Effective May 1, 1993, the Company adopted the provisions of Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes," which provides for the recognition of deferred tax assets and liabilities for the tax consequences of temporary differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities. The cumulative effect of the change in method as of May 1, 1993 was not material.

The Company has entered into a Tax Sharing Agreement with CompuServe, pursuant to which CompuServe is obligated to pay the Company for CompuServe's

liability for federal, state and local income taxes incurred during any taxable period.

Earnings per share: Earnings per share are computed based on the weighted average number of common and common equivalent shares outstanding during the respective years (106,059,000 in 1996, 105,871,000 in 1995 and 106,769,000 in 1994). Earnings per share assuming full dilution have not been shown as there would be no material dilution.

Consolidated statements of cash flows: For purposes of the consolidated statements of cash flows, the Company considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash.

Disclosure regarding financial instruments: The carrying values reported in the balance sheet for certificates of deposit, receivables, notes payable, accounts payable and accrued liabilities approximate fair market value due to the relatively short-term nature of the respective instruments.

New accounting standard: In October 1995, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation," effective for transactions entered into in fiscal years beginning after December 15, 1995. This Statement requires the disclosure of the estimated fair value of stock-based compensation arrangements with employees and encourages, but does not require, the recognition of such expense. The Company does not intend to adopt the recognition provisions of this Statement. Therefore, the adoption of this Statement will have no effect on the Company's financial condition or results from operations.

MARKETABLE SECURITIES

The amortized cost and market value of marketable securities at April 30, 1996 and 1995 are summarized below:

	1996				1995			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
Current:								
Municipal bonds and notes	\$ 13,182	\$ 440	\$ 79	\$ 13,543	\$ 88,894	\$ 310	\$ 94	\$ 89,110
U.S. Government obligations	288,892	10	1	288,901	52,091	48	-	52,139
Other equity investments	-	-	-	-	49,100	-	-	49,100
Other debt investments	87,057	76	20	87,113	72,830	61	1	72,890
	389,131	526	100	389,557	262,915	419	95	263,239
Noncurrent:								
Municipal bonds	11,013	310	37	11,286	82,702	1,676	1,325	83,053
Preferred stock	1,511	316	32	1,795	1,511	245	131	1,625
Common stock	3,085	935	20	4,000	2,737	396	115	3,018
Other equity investments	-	-	-	-	3,488	-	692	2,796
Other debt investments	-	-	-	-	999	3	-	1,002
	15,609	1,561	89	17,081	91,437	2,320	2,263	91,494
	\$404,740	\$ 2,087	\$ 189	\$ 406,638	\$354,352	\$ 2,739	\$ 2,358	\$ 354,733

All marketable securities at April 30, 1996 are classified as available-for-sale. Proceeds from the sales of available-for-sale securities were \$329,132, \$299,702 and \$448,978 during 1996, 1995 and 1994, respectively. Gross realized gains on those sales during 1996, 1995 and 1994 were \$1,528, \$7,014 and \$393, respectively; gross realized losses were \$386, \$350 and \$86, respectively.

Contractual maturities of available-for-sale debt securities at April 30, 1996 are presented below. Since expected maturities differ from contractual maturities due to the issuers' rights to prepay certain obligations or the seller's rights to call certain obligations, the first call date, put date or auction date for municipal bonds and notes is considered the contractual

maturity date.

	Amortized Cost -----	Market Value -----
Within one year	\$376,708	\$376,776
After one year through five years	10,748	11,184
After five years through 10 years	12,688	12,883
	-----	-----
	\$400,144	\$400,843
	=====	=====

#### PROPERTY AND EQUIPMENT

A summary of property and equipment follows:

	April 30	
	1996 -----	1995 -----
Land	\$ 7,084	\$ 7,116
Buildings	87,523	50,625
Computer and other equipment	582,815	367,420
Leasehold improvements	37,347	29,343
	-----	-----
	714,769	454,504
Less accumulated depreciation and amortization	315,195	227,056
	-----	-----
	\$399,574	\$227,448
	=====	=====

Depreciation and amortization expense for 1996, 1995 and 1994 amounted to \$90,829, \$62,809 and \$52,091, respectively.

#### OTHER NONCURRENT LIABILITIES

The Company has deferred compensation plans which permit directors and certain management employees to defer portions of their compensation and earn interest on the deferred amounts. The compensation, together with Company matching of deferred amounts, has been accrued, and the only expenses related to these plans are the Company match and the interest on the deferred amounts, which are not material to the financial statements. Included in Other Noncurrent Liabilities is \$31,146 at the end of 1996 and \$27,112 at the end of 1995 to reflect the liability under these plans. The Company purchased whole-life insurance contracts on the related directors and employees to recover distributions made or to be made under the plans and has recorded the cash surrender value of the policies in Other Assets. If all the assumptions regarding mortality, interest rates, policy dividends and other factors are realized, the Company will ultimately realize its full investment plus a factor for the use of its money.

#### STOCKHOLDERS' EQUITY

Changes in the components of stockholders' equity during the three years ended April 30, 1996 are summarized below:

	Common stock		Convertible preferred stock		Additional paid-in capital	Retained earnings	Treasury stock	
	Shares	Amount	Shares	Amount			Shares	Amount
Balances at May 1, 1993	108,972,699	\$1,089	-	-	\$101,038	\$643,757	(2,617,463)	\$ (95,396)
Net earnings for the year	-	-	-	-	-	200,528	-	-
Stock options exercised	-	-	-	-	(10,486)	-	1,677,674	60,805
Unrealized loss on translation	-	-	-	-	-	(9,110)	-	-
Acquisition of treasury shares	-	-	-	-	-	-	(1,883,816)	(68,899)
Cash dividends paid - \$1.09 per share	-	-	-	-	-	(115,451)	-	-
Balances at April 30, 1994	108,972,699	1,089	-	-	90,552	719,724	(2,823,605)	(103,490)
Net earnings for the year	-	-	-	-	-	107,259	-	-
Stock options exercised	-	-	-	-	(4,164)	-	1,624,843	62,161
Unrealized gain on translation	-	-	-	-	-	2,043	-	-
Acquisition of treasury shares	-	-	-	-	-	-	(2,910,900)	(114,900)
Stock issued for acquisition	-	-	401,768	\$ 4	54,190	-	-	-
Cumulative effect of change in accounting for marketable securities, net of taxes	-	-	-	-	-	5,526	-	-
Change in net unrealized gain on marketable securities	-	-	-	-	-	(5,291)	-	-
Cash dividends paid - \$1.21 3/4 per share	-	-	-	-	-	(128,838)	-	-
Balances at April 30, 1995	108,972,699	1,089	401,768	4	140,578	700,423	(4,109,662)	(156,229)
Net earnings for the year	-	-	-	-	-	177,168	-	-
Stock options exercised	-	-	3,031	-	(1,501)	-	340,395	12,957
Restricted stock granted	-	-	-	-	(47)	-	46,370	1,763
Unrealized loss on translation	-	-	-	-	-	(50)	-	-
Acquisition of treasury shares	-	-	-	-	-	-	(1,833,200)	(71,897)
Sale of stock by subsidiary	-	-	-	-	365,664	-	-	-
Change in net unrealized gain on marketable securities	-	-	-	-	-	934	-	-
Cash dividends paid - \$1.27 1/4 per share	-	-	-	-	-	(131,263)	-	-
Balances at April 30, 1996	108,972,699	\$1,089	404,799	\$ 4	\$504,694	\$747,212	(5,556,097)	\$(213,406)

The Company is authorized to issue 6,000,000 shares of Preferred Stock, without par value. At April 30, 1996, the Company had 5,595,201 shares of authorized but unissued Preferred Stock. Of the unissued shares, 600,000 shares have been designated as Participating Preferred Stock in connection with the Company's shareholder rights plan.

On March 8, 1995, the Board of Directors authorized the issuance of a series of 500,000 shares of nonvoting Preferred Stock designated as Convertible Preferred Stock, without par value. On April 4, 1995, 401,768 shares of Convertible Preferred Stock were issued to certain shareholders of SPRY, Inc. ("SPRY" in connection with the Company's acquisition of such corporation. Each share of Convertible Preferred Stock is convertible on or after April 5, 1998 into four shares of Common Stock of the Company, subject to adjustment upon certain events. The holders of the Convertible Preferred Stock are not entitled to receive dividends paid in cash, property or securities and, in the event of any dissolution, liquidation or winding-up of the Company, will share ratably with the holders of Common Stock then outstanding in the assets of the Company after any distribution or payments are made to the holders of Participating Preferred Stock or the holders of any other class or series of stock of the Company with preference over the Common Stock.

#### STOCK OPTION PLANS

The Company has three stock option plans: the 1993 Long-Term Executive Compensation Plan, the 1989 Stock Option Plan for Outside Directors and a plan for eligible seasonal employees. The 1993 plan was approved by the shareholders in September 1993 to replace the 1984 Long-Term Executive Compensation Plan, which terminated at that time except with respect to outstanding awards thereunder. Under the 1993 and 1989 plans, options may be granted to selected employees and outside directors to purchase the Company's Common Stock for periods not exceeding 10 years at a price

that is not less than 100% of fair market value on the date of the grant. A majority of the options are exercisable each year either starting one year after the date of the grant or on a cumulative basis at the annual rate of 33 1/3% of the total number of option shares. Other options are exercisable commencing three years after the date of the grant on a cumulative basis in annual increments of 60%, 20% and 20% of the total number of option shares.

The plan for eligible seasonal employees, as amended, provided for the grant of options on June 30, 1996, 1995 and 1994 at the market price on the date of the grant. The options are exercisable during September in each of the two years following the calendar year of the grant.

Changes during the years ended April 30, 1996, 1995 and 1994 under these plans were as follows:

	1996	1995	1994
	-----	-----	-----
Options outstanding, beginning of year	4,865,814	3,538,341	3,901,373
Options granted	3,545,692	3,912,763	2,410,317
Options exercised	(362,849)	(1,624,203)	(1,677,674)
Options which expired	(1,634,729)	(961,087)	(1,095,675)
Options outstanding, end of year	6,413,928	4,865,814	3,538,341
Shares exercisable, end of year	4,029,301	2,727,540	2,807,255
Shares reserved for future grants, end of year	13,554,594	15,465,557	18,417,233
Option prices per share:			
Exercised during the year	\$ 6.9525-39.25	\$ 5.515-39.25	\$5.515-35.75
Outstanding, end of year	\$9.9688-44.375	\$6.9525-44.00	\$5.515-44.00

In connection with the acquisition of SPRY, outstanding options to purchase SPRY common stock under an employee stock option plan were converted on April 4, 1995 into options to purchase 51,828 shares of the Company's Convertible Preferred Stock. During 1996, 3,031 options to purchase Convertible Preferred Stock were exercised, and 2,052 were cancelled. At April 30, 1996, 46,745 of such options were outstanding, with exercise prices ranging from \$9.54 to \$19.08.

During 1996, the Company granted 46,370 shares of restricted stock at a fair market value of \$37.00 per share under the 1993 Long-Term Executive Compensation Plan, of which 18,153 were vested at April 30, 1996. The remainder vests ratably over three years starting one year after the date of the grant.

#### SHAREHOLDER RIGHTS PLAN

On July 14, 1988, the Company's Board of Directors adopted a shareholder rights plan to deter coercive or unfair takeover tactics and to prevent a potential acquiror from gaining control of the Company without offering a fair price to all of the Company's stockholders. The plan was amended by the Board of Directors on May 9, 1990, September 11, 1991, and May 10, 1995. Under the plan, a dividend of one right (a "Right") per share was declared and paid on each share of the Company's Common Stock outstanding on July 25, 1988. As to shares issued after such date, rights automatically attach to them after their issuance.

Under the plan, as amended, a right becomes exercisable when a person or group of persons acquires beneficial ownership of 10% or more of the outstanding shares of the Company's Common Stock without the prior written approval of the Company's Board of Directors (an "Unapproved Stock Acquisition"), and after 10 business days following the commencement of a tender offer that would result in

an Unapproved Stock Acquisition. When exercisable, the registered holder of each Right may purchase from the Company one two-hundredths of a share of a new class of the Company's Participating Preferred Stock, without par value, at a price of \$60.00, subject to adjustment. The registered holder of each Right then also has the right (the "Subscription Right") to purchase for the exercise price of the Right, in lieu of shares of Participating Preferred Stock, a number of shares of the Company's Common Stock having a market value equal to twice the exercise price of the Right. Following an Unapproved Stock Acquisition, if the Company is involved in a merger, or 50% or more of the Company's assets or earning power are sold, the registered holder of each Right has the right (the "Merger Right") to purchase for the exercise price of the Right a number of shares of the common stock of the surviving or purchasing company having a market value equal to twice the exercise price of the Right.

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After an Unapproved Stock Acquisition, but before any person or group of persons acquires 50% or more of the outstanding shares of the Company's Common Stock, the Board of Directors may exchange all or part of the then outstanding and exercisable Rights for Common Stock at an exchange ratio of one share of Common Stock per Right (the "Exchange"). Upon any such Exchange, the right of any holder to exercise a Right terminates. Upon the occurrence of any of the events giving rise to the exercisability of the Subscription Right or the Merger Right or the ability of the Board of Directors to effect the Exchange, the Rights held by the acquiring person or group become void as they relate to the Subscription Right, the Merger Right or the Exchange.

The Company may redeem the Rights at a price of \$.005 per Right at any time prior to an Unapproved Stock Acquisition (and after such time in certain circumstances). The Rights expire on July 25, 1998, unless extended by the Board of Directors. Until a Right is exercised, the holder thereof, as such, has no rights as a stockholder of the Company, including the right to vote or to receive dividends. The issuance of the Rights alone has no dilutive effect and does not affect reported earnings per share.

#### OTHER EXPENSES

Included in other expenses are the following:

	Year Ended April 30		
	1996	1995	1994
	-----	-----	-----
Royalties	\$ 77,926	\$ 59,027	\$ 39,827
Legal and professional	52,826	15,271	14,445
Bad debts	27,465	13,619	24,977
Travel and entertainment	24,197	19,470	15,039
Amortization of goodwill	14,595	4,875	5,026
Taxes and licenses	7,253	8,915	13,285
Interest	5,529	4,060	3,798

#### TAXES ON EARNINGS

The components of earnings from continuing operations before taxes on earnings upon which federal and foreign income taxes have been provided are as follows:

	Year Ended April 30		
	1996	1995	1994
United States	\$276,586	\$213,122	\$276,329
Foreign	8,708	6,874	6,855
	-----	-----	-----
	\$285,294	\$219,996	\$283,184
	=====	=====	=====

Deferred income tax provisions (benefits) reflect the impact of temporary differences between amounts of assets and liabilities for financial reporting purposes and such amounts as measured by tax laws. The current and deferred components of taxes on earnings from continuing operations is comprised of the following:

	Year Ended April 30		
	1996	1995	1994
Currently payable:			
Federal	\$ 47,357	\$ 96,686	\$ 99,419
State	6,047	13,511	23,347
Foreign	2,083	3,274	3,198
	-----	-----	-----
	55,487	113,471	125,964
	-----	-----	-----
Deferred:			
Federal	44,926	(625)	(5,347)
State	5,736	(88)	(1,256)
Foreign	1,977	(21)	(172)
	-----	-----	-----
	52,639	(734)	(6,775)
	-----	-----	-----
	\$108,126	\$112,737	\$119,189
	=====	=====	=====

Provision is not made for possible income taxes payable upon distribution of unremitted earnings of foreign subsidiaries. Such unremitted earnings aggregated \$56,695 at December 31, 1995. Management believes the cost to repatriate these earnings would not be material.

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The following table reconciles the U.S. federal income tax rate to the Company's effective tax rate:

	Year Ended April 30		
	1996	1995	1994
Statutory rate	35.0%	35.0%	35.0%
Increases (reductions) in income taxes resulting from:			
State income taxes, net of federal income tax benefit	2.7%	4.0%	5.1%
Foreign taxes, net of federal income tax benefit	.4%	.3%	.2%
Purchased research and development		13.3%	3.1%
Nontaxable federal income	(.7%)	(2.3%)	(1.5%)
Other	.5%	.9%	.2%
	-----	-----	-----
Effective rate	37.9%	51.2%	42.1%
	=====	=====	=====

A summary of deferred income taxes follows:

	Year Ended April 30	
	1996	1995
	-----	-----
Gross deferred tax assets:		
Accrued expenses	\$ (13,336)	\$ (14,142)
Other	-	(2,694)
	-----	-----
Current	(13,336)	(16,836)
	-----	-----
Deferred compensation	(12,155)	(10,767)
Other	-	(757)
	-----	-----
Noncurrent	(12,155)	(11,524)
	-----	-----
	(25,491)	(28,360)
	-----	-----
Gross deferred tax liabilities:		
Deferred subscriber acquisition costs	36,403	
Depreciation	20,375	9,085
Other	2,077	-
	-----	-----
Noncurrent	58,855	9,085
	-----	-----
Net deferred tax liabilities (assets)	\$ (33,364)	\$ (19,275)
	=====	=====

#### ACQUISITIONS

On April 4, 1995, the Company acquired SPRY for \$41,785 in cash and issued Convertible Preferred Stock valued at \$54,194. In addition, outstanding options for SPRY common stock were converted into options for Convertible Preferred Stock valued at \$5,641. The transaction was accounted for as a purchase and, accordingly, the consolidated statements of earnings includes SPRY's operations from the date of acquisition. On January 30, 1996, the Company contributed its investment in SPRY to CompuServe. In connection with the purchase, the Company acquired certain intangible assets, including software technology, tradenames and an assembled workforce totalling \$11,656. These intangibles will be amortized on a straight-line basis over five years. The Company also acquired research and development projects related to SPRY's next product generation. These projects represent SPRY's research and development efforts prior to the merger, which had not yet reached the stage of technological feasibility and had no alternative future use; thus, the ultimate revenue generating capability of these projects was uncertain. The purchased research and development was valued at \$83,508 using a discounted, risk-adjusted future income approach. The consolidated statements of earnings includes a charge for the purchased research and development which is not deductible for income tax purposes. The fair value of assets acquired, including intangibles, was \$106,371; liabilities assumed were \$4,751. Liabilities assumed and the Convertible Preferred Stock and stock options issued were non-cash items excluded from the consolidated statements of cash flows.

On November 24, 1993, the Company acquired MECA Software, Inc. for \$45,384 in cash. The transaction was accounted for as a purchase and, accordingly, the consolidated statements of earnings includes MECA's results since the date of acquisition. The purchase price has been allocated to assets acquired and liabilities assumed based on their fair value at the date of acquisition. The excess of the purchase price over the fair value of the net tangible assets acquired was \$55,978, of which \$25,072 was allocated to purchased research and development, \$4,900 was allocated to various other intangibles including technology, software and trademarks, and the remainder was allocated to goodwill. Goodwill and other intangibles will be amortized on a straight-line basis over their estimated useful lives of three to 15 years. The consolidated statements of earnings includes a charge for the purchased research and development which is not deductible for income tax purposes. The fair value of assets acquired, including

intangibles, was \$62,004; liabilities assumed were \$16,620. Liabilities assumed in connection with the acquisition were non-cash items excluded from the consolidated statements of cash flows.

During fiscal 1996, 1995 and 1994, the Company made other acquisitions which were accounted for as purchases. Their operations, which are not material, are included in the consolidated statements of earnings. Pro forma results assuming MECA and SPRY had been acquired as of the beginning of the periods presented would not be materially different from reported results.

#### SALE OF SUBSIDIARIES

On February 20, 1996, the Company announced its intention to fully separate its wholly owned subsidiary, CompuServe. CompuServe provides computer-based information and communication services to businesses and individual owners of personal computers. The initial phase of this separation was completed on April 19, 1996 through CompuServe's initial public offering of 18,400,000 shares of its common stock at \$30.00 per share, which reduced the Company's ownership in CompuServe to just over 80%. The Company did not recognize a gain on this transaction. Additional paid-in capital was increased by the change in the Company's proportionate share of CompuServe's equity as a result of the initial public offering, from which the net proceeds to CompuServe were \$518,819. In its February announcement, the Company stated its intention to distribute its remaining ownership interest in CompuServe by means of a spin-off or split-off within approximately 12 months after the IPO.

On May 1, 1995, the Company sold its wholly owned subsidiary, MECA Software, Inc., exclusive of its rights to publish TaxCut, for \$35,000 cash. The sale resulted in a gain of \$12,445, which is included in other income.

On June 30, 1994, the Company sold the stock of a wholly owned subsidiary of CompuServe, Collier-Jackson, Inc., for \$5,195 in cash. The operating results of Collier-Jackson, Inc. are reflected in the consolidated statements of earnings through the date of disposition, and the gain on the sale of \$2,680 is included in other income.

On January 27, 1994, the Company completed the sale of its interest in its wholly owned subsidiary, Interim Services Inc. ("Interim"), through an initial public offering of 10,000,000 shares at \$20.00 per share. The net proceeds from the sale and the receipt from the retirement of a term loan to Interim amounted to \$218,500. The Company recorded a net gain on the sale of the stock of \$27,265. Interim's results are reflected as discontinued operations. The net sales of Interim were \$399,573 for fiscal 1994.

#### COMMITMENTS

Substantially all of the Company's operations are conducted in leased premises. Most of the operating leases are for a one-year period with renewal options of one to three years and provide for fixed monthly rentals. Lease commitments at April 30, 1996, for fiscal 1997, 1998, 1999, 2000 and 2001 aggregated \$68,741, \$50,721, \$32,748, \$18,201 and \$10,570, respectively, with no significant commitments extending beyond that period of time. The Company's rent expense for the years 1996, 1995 and 1994 aggregated \$78,745, \$70,377 and \$63,655, respectively.

The Company maintains a year-round \$150,000 line of credit to support various financial activities conducted by Block Financial Corporation and a \$25,000 line of credit to fulfill short-term cash requirements of CompuServe.

#### QUARTERLY FINANCIAL DATA (UNAUDITED)

Fiscal 1996 Quarter Ended			
April 30, 1996	Jan. 31, 1996	Oct. 31, 1995	July 31, 1995
-----	-----	-----	-----

Revenues	\$925,502	\$312,072	\$223,913	\$218,114
	=====	=====	=====	=====
Earnings (loss) before provision for income taxes (benefits)	\$299,163	\$ (8,882)	\$ (13,470)	\$ 8,483
Provision for income taxes (benefits)	113,452	(3,411)	(5,172)	3,257
	-----	-----	-----	-----
Net earnings (loss)	\$185,711	\$ (5,471)	\$ (8,298)	\$ 5,226
	=====	=====	=====	=====
Earnings (loss) per share	\$ 1.75	\$ (.05)	\$ (.08)	\$ .05
	=====	=====	=====	=====

	Fiscal 1995 Quarter Ended			
	April 30, 1995	Jan. 31, 1995	Oct. 31, 1994	July 31, 1994
	-----	-----	-----	-----
Revenues	\$774,047	\$268,014	\$172,857	\$145,400
	=====	=====	=====	=====
Earnings (loss) before provision for income taxes (benefits)	\$213,720	\$ 13,102	\$ (2,029)	\$ (4,797)
Provision for income taxes (benefits)	110,333	5,018	(777)	(1,837)
	-----	-----	-----	-----
Net earnings (loss)	\$103,387	\$ 8,084	\$ (1,252)	\$ (2,960)
	=====	=====	=====	=====
Earnings (loss) per share	\$ .97	\$ .08	\$ (.01)	\$ (.03)
	=====	=====	=====	=====

The Company recorded a charge to earnings of \$83,508 (\$.79 per share) for purchased research and development in the fourth quarter of fiscal 1995.

#### SEGMENT INFORMATION

The principal business activity of the Company is providing services to the general public and business community. It operates in the following industry segments:

**Tax Services:** This segment is engaged in providing tax return preparation, filing and related services to the general public on a fee basis. Revenues are seasonal in nature and represent fees of company-owned offices and royalties from franchised offices.

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**Computer Services:** This segment is engaged in providing computer information and networking services to corporations and individual computer owners via a proprietary data network and host servers located in Columbus and Dublin, Ohio.

**Financial Services:** This segment provides and invests primarily in financial services delivery technology and the related financial services delivered by that technology as well as financial services associated with Tax Services and its typical customer. It sponsors credit cards and other financial services to existing CompuServe and Tax Services customers. This segment also provides personal productivity software to the general public.

**Identifiable Assets:** Identifiable assets are those assets, including the excess of cost over fair value of net tangible assets acquired, associated with each segment of the Company's operations. The remaining assets are classified as corporate assets and consist primarily of cash, marketable securities and corporate equipment.

Information concerning the Company's operations by industry segment for the years ended April 30, 1996, 1995 and 1994 is as follows:

1996	1995	1994
-----	-----	-----

REVENUES:			
Tax Services	\$ 831,455	\$ 729,718	\$ 755,526
Computer Services	793,165	582,793	429,885
Financial Services	48,887	35,909	42,097
Intersegment Sales	(8,010)	(12,500)	(13,185)
	-----	-----	-----
Total operating revenues	1,665,497	1,335,920	1,214,323
Investment income	10,468	23,703	15,256
Corporate	3,636	695	9,098
	-----	-----	-----
Total Revenues	\$1,679,601	\$1,360,318	\$1,238,677
	=====	=====	=====
OPERATING PROFIT:			
Tax Services	\$ 194,771	\$ 147,740	\$ 198,719
Computer Services	87,836	150,109	102,317
Financial Services	5,077	(5,788)	9,428
	-----	-----	-----
Total operating profit	287,684	292,061	310,464
Investment income	10,468	23,703	15,256
Purchased research and development	-	(83,508)	(25,072)
Unallocated corporate and administrative	(12,858)	(12,260)	(17,464)
	-----	-----	-----
Earnings from Continuing Operations Before Taxes	\$ 285,294	\$ 219,996	\$ 283,184
	=====	=====	=====
DEPRECIATION AND AMORTIZATION:			
Tax Services	\$ 23,499	\$ 21,991	\$ 24,899
Computer Services	78,683	42,639	29,876
Financial Services	8,929	2,992	2,277
Corporate	129	62	65
	-----	-----	-----
Total Depreciation and Amortization	\$ 111,240	\$ 67,684	\$ 57,117
	=====	=====	=====
IDENTIFIABLE ASSETS:			
Tax Services	\$ 141,031	\$ 117,560	\$ 122,473
Computer Services	950,671	310,393	204,791
Financial Services	208,489	186,859	110,935
Corporate	455,700	482,501	655,046
	-----	-----	-----
Total Assets	\$1,755,891	\$1,097,313	\$1,093,245
	=====	=====	=====
CAPITAL EXPENDITURES:			
Tax Services	\$ 36,724	\$ 26,033	\$ 11,411
Computer Services	227,710	99,690	73,359
Financial Services	938	2,135	615
Corporate	354	45	126
	-----	-----	-----
Total Capital Expenditures	\$ 265,726	\$ 127,903	\$ 85,511
	=====	=====	=====

## SUBSEQUENT EVENTS

Subsequent to April 30, 1996, CompuServe, certain officers and directors of CompuServe, and the Company were named as defendants in three purported class action lawsuits. Each suit alleges 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. One suit also alleges violations of the Ohio Securities Code and common law of negligent misrepresentation. Relief sought is unspecified but includes pleas for rescission and damages. Also subsequent to April 30, 1996, an action for discovery was filed solely against CompuServe. In such action the plaintiff seeks factual support for a possible fourth claim relating to initial public offering disclosures. The defendants intend to vigorously defend these suits.

In July 1996, the Company's Board of Directors approved a plan to spin off the Company's remaining ownership interest in CompuServe on or about

November 1, 1996, subject to, among other things, shareholder approval at the September 1996 annual meeting. On August 28, 1996, the Company's Board of Directors decided not to present the proposed spin-off of CompuServe to the Company's shareholders at the annual meeting. This decision was based, in part, on CompuServe's reported first quarter and projected second quarter losses, market uncertainties relating to the online industry, and the planned September introduction of new interfaces for the CompuServe Information Service and WOW! The net assets and operating results of CompuServe have been reclassified from discontinued operations to continuing operations in the accompanying financial statements.

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ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

There has been no change in the registrant's accountants during the two most recent fiscal years or any subsequent interim time period.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

The information called for by this item is contained in the Company's definitive proxy statement filed pursuant to Regulation 14A not later than 120 days after April 30, 1996, in the section titled "Election of Directors" and in Item 4a of Part I of this report, and is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION.

The information called for by this item is contained in the Company's definitive proxy statement filed pursuant to Regulation 14A not later than 120 days after April 30, 1996, in the sections entitled "Directors' Meetings, Compensation and Committees" and "Compensation of Executive Officers," and is incorporated herein by reference, except that information contained in the section entitled "Compensation of Executive Officers" under the subtitles "Performance Graph" and "Compensation Committee Report on Executive Compensation" is not incorporated herein by reference and is not to be deemed "filed" as part of this filing.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

The information called for by this item is contained in the Company's definitive proxy statement filed pursuant to Regulation 14A not later than 120 days after April 30, 1996, in the section titled "Election of Directors" and in the section titled "Information Regarding Security Holders," and is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

The information called for by this item is contained in the Company's definitive proxy statement filed pursuant to Regulation 14A not later than 120 days after April 30, 1996, in the section titled "Election of Directors," and is incorporated herein by reference.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K.

- (a) 1. Financial Statements  
The following consolidated financial statements of H&R Block, Inc., and subsidiaries, and the Independent Auditor's Report are contained in Item 8 of this report, above:  
Consolidated Statements of Earnings  
Consolidated Balance Sheets

Consolidated Statements of Cash Flows  
Notes to Consolidated Financial Statements  
Quarterly Financial Data

2. Independent Auditors' Report  
Financial Statement Schedules  
Independent Auditors' Report  
Schedule VIII - Valuation and Qualifying Accounts  
Schedules not filed herewith are either not applicable, the information is not material or the informa-

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tion is set forth in the financial statements or notes thereto.

3. Exhibits

- 3(a) Restated Articles of Incorporation of H&R Block, Inc., as amended, filed as Exhibit 4(a) to the Company's quarterly report on Form 10-Q for the quarter ended October 31, 1991, are incorporated herein by reference.
- 3(b) Bylaws of H&R Block, Inc., as amended, filed as Exhibit 3(b) to the Company's annual report on Form 10-K for the fiscal year ended April 30, 1995, are incorporated herein by reference.
- 4(a) Conformed copy of Rights Agreement dated as of July 14, 1988 between H&R Block, Inc., and Centerre Trust Company of St. Louis, filed on August 9, 1993 as Exhibit 4(c) to the Company's Registration Statement on Form S-8 (File No. 33-67170), is incorporated herein by reference.
- 4(b) Copy of Amendment to Rights Agreement dated as of May 9, 1990 between H&R Block, Inc. and Boatmen's Trust Company, filed as Exhibit 4(b) to the Company's annual report on Form 10-K for the fiscal year ended April 30, 1995, is incorporated by reference.
- 4(c) Copy of Second Amendment to Rights Agreement dated September 11, 1991 between H&R Block, Inc. and Boatmen's Trust Company, filed as Exhibit 4(c) to the Company's annual report on Form 10-K for the fiscal year ended April 30, 1995, is incorporated by reference.
- 4(d) Copy of Third Amendment to Rights Agreement dated May 10, 1995 between H&R Block, Inc. and Boatmen's Trust Company, filed as Exhibit 4(d) to the Company's annual report on Form 10-K for the fiscal year ended April 30, 1995, is incorporated by reference.
- 4(e) Form of Certificate of Designation, Preferences and Rights of Participating Preferred Stock of H&R Block, Inc., filed as Exhibit 4(e) to the Company's annual report on Form 10-K for the fiscal year ended April 30, 1995, is incorporated by reference.
- 4(f) Form of Certificate of Designation, Preferences and Rights of Delayed Convertible Preferred Stock of H&R Block, Inc., filed as Exhibit 4(f) to the Company's annual report on Form 10-K for the fiscal year ended April 30, 1995, is incorporated by reference.
- 10(a) The Company's 1984 Long-Term Executive Compensation Plan, as

amended (terminated as of September 8, 1993, except with respect to awards then outstanding thereunder), filed as Exhibit 28(a) to the Company's quarterly report on Form 10-Q for the quarter ended October 31, 1991, is incorporated herein by reference.

- 10(b) The Company's 1993 Long-Term Executive Compensation Plan, as amended, filed as Exhibit 10(a) to the Company's quarterly report on Form 10-Q for the quarter ended January 31, 1996, is incorporated herein by reference.
- 10(c) The H&R Block Long-Term Performance Program, as amended, filed as Exhibit 10(c) to the Company's annual report on Form 10-K for the fiscal year ended April 30, 1994, is incorporated herein by reference.
- 10(d) The H&R Block Deferred Compensation Plan for Directors, as amended, filed as Exhibit 10 to the Company's quarterly report on Form 10-Q for the quarter ended July 31, 1994, is incorporated herein by reference.
- 10(e) The H&R Block Deferred Compensation Plan for Executives, as amended (Amendments 1 through 5), filed as Exhibit 10(e) to the Company's annual report on Form 10-K for the fiscal year ended April 30, 1994, is incorporated herein by reference.
- 10(f) Amendment No. 6 to H&R Block Deferred Compensation Plan for Executives, filed as Exhibit 10(b) to the Company's quarterly report on Form 10-Q for the quarter ended July 31, 1995, is incorporated herein by reference.
- 10(g) The H&R Block Supplemental Deferred Compensation Plan for Executives, filed as Exhibit 10(f) to the Company's annual report on Form 10-K for the fiscal year ended April 30, 1994, is incorporated herein by reference.
- 10(h) Amendment No. 1 to H&R Block Supplemental Deferred Compensation Plan for Executives, filed as Exhibit 10(a) to the Company's quarterly report on Form 10-Q for the quarter ended October 31, 1994, is incorporated herein by reference.
- 10(i) Amendment No. 2 to H&R Block Supplemental Deferred Compensation Plan for Executives, filed as

Exhibit 10(c) to the Company's quarterly report on Form 10-Q for the quarter ended July 31, 1995, is incorporated herein by reference.

- 10(j) The Amended and Restated H&R Block, Inc. Retirement Plan for Non-Employee Directors, filed as Exhibit 10(h) to the Company's annual report on Form 10-K for the fiscal year ended April 30, 1995, is incorporated herein by reference.
- 10(k) The Company's 1989 Stock Option Plan for Outside Directors, as amended, filed as Exhibit 28(b) to the Company's quarterly report on Form 10-Q for the quarter ended October 31, 1991, is incorporated herein by reference.
- 10(l) Executive Employment Agreement between the Company and Richard H. Brown, filed as Exhibit 10(d) to the Company's quarterly report on Form 10-Q for the quarter ended July 31, 1995, is incorporated herein by reference.

- 10(m) Restricted Shares Agreement dated August 5, 1995, between the Company and Richard H. Brown, filed as Exhibit 10 to the Company's quarterly report on Form 10-Q for the quarter ended October 31, 1995, is incorporated by reference.
- 10(n) Letter dated December 20, 1995, setting forth the compensatory arrangement for George T. Robson, Senior Vice President, Chief Financial Officer and Treasurer of the Company, filed as Exhibit 10(b) to the Company's quarterly report on Form 10-Q for the quarter ended January 31, 1996, is incorporated by reference.
- 10(o) Letter dated June 18, 1996, revising the compensatory arrangement for George T. Robson, Senior Vice President, Chief Financial Officer and Treasurer of the Company.
- 11 Statement re Computation of Per Share Earnings.
- 13 That portion of the annual report to security holders for the fiscal year ended April 30, 1996 which is expressly incorporated by reference in this filing.
- 21 Subsidiaries of the Company.
- 23 The consent of Deloitte & Touche LLP, Certified Public Accountants, is located immediately after the signature pages contained in this filing.
- 27 Financial Data Schedule.

(b) Reports on Form 8-K.

The Company did not file any current reports on Form 8-K during the fourth quarter of the year ended April 30, 1996.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

September 26, 1996

By /s/ Frank L. Salizzoni  
 -----  
 Frank L. Salizzoni, President  
 and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated.

Signature -----	Title -----
/s/ Frank L. Salizzoni ----- Frank L. Salizzoni	President, Chief Executive Officer and Director (principal executive officer)
/s/ G. Kenneth Baum ----- G. Kenneth Baum	Director
/s/ Henry W. Bloch	Director



under the Spry, Inc. 1995 Stock Option Plan) on Form S-8, and Registration Statement No. 333-09577 of H&R Block, Inc. and subsidiaries (relating to shares of Common Stock issuable under the Third Stock Option Plan for Seasonal Employees) on Form S-8 of our reports dated June 18, 1996, except for the "Subsequent Events" note to the consolidated financial statements as to which the date is September 26, 1996, appearing in and incorporated by reference in this Annual Report on Form 10-K/A of H&R Block, Inc. and subsidiaries for the year ended April 30, 1996.

/s/Deloitte & Touche LLP

Kansas City, Missouri  
September 26, 1996

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INDEPENDENT AUDITORS' REPORT

Board of Directors and Stockholders  
H&R Block, Inc.  
Kansas City, Missouri

We have audited the consolidated financial statements of H&R Block, Inc. and subsidiaries as of April 30, 1996 and 1995 and for each of the three years in the period ended April 30, 1996, and have issued our report thereon dated June 18, 1996, except for the "Subsequent Events" note to the consolidated financial statements as to which the date is September 26, 1996; such consolidated financial statements and report are included in Item 8 of this report. Our audits also included the financial statement schedule of H&R Block, Inc. and subsidiaries, listed in Item 14(a)(2). This financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion based on our audits. In our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ Deloitte & Touche LLP

Kansas City, Missouri  
September 26, 1996

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H&R Block, Inc. and Subsidiaries  
SCHEDULE VIII - VALUATION AND QUALIFYING ACCOUNTS  
Years ended April 30, 1996, 1995 and 1994

Description	Balance Beginning of Period	Additions		Deductions	Balance at End of Period
		Charged to Costs and Expenses	Charged to Other		
Allowance for Doubtful Accounts_ deducted from accounts receivable in the balance sheet					
1996	\$ 7,274,000	\$27,465,000	\$ -	\$26,891,000	\$ 7,848,000
1995	\$12,744,000	\$13,619,000	\$ -	\$19,089,000	\$ 7,274,000
1994	\$12,000,000	\$24,977,000	\$ -	\$24,233,000	\$12,744,000

## EXHIBIT INDEX

- 10(o) Letter dated June 18, 1996, revising the compensatory arrangement for George T. Robson, Senior Vice President, Chief Financial Officer and Treasurer of the Company.
- 11 Statement re Computation of Per Share Earnings.
- 21 Subsidiaries of the Company.
- 27 Financial Data Schedule.

H&R Block, Inc.  
4410 Main Street  
Kansas City, Missouri 64111  
(816) 932-7577  
Fax (816) 753-8628

Richard H. Brown  
President and  
Chief Executive Officer

June 18, 1996

Mr. George T. Robson  
300 Caversham Road  
Bryn Mawr, Pennsylvania 19010

Dear George:

This letter confirms our recent verbal agreement to revise the terms of your employment with HRB Management, Inc. ("HRB"), and to make corresponding changes to such terms as set forth in my December 20, 1995 letter to you (the "Employment Letter").

We have agreed that, effective immediately, item 6 of the Employment Letter is revised to read as follows:

"6. You will be protected against a "Change of Control" of Block that is not initiated by Block, should such a Change of Control occur during the five-year period following the commencement of your employment with HRB. If at any time during the one-year period following such Change of Control, your employment is terminated without "cause" under Block's or HRB's policies in existence immediately prior to the Change of Control, or if you terminate your employment for any reason (or no reason) during the 60-day period following such Change of Control of Block, certain elements of your compensation will continue.

"HRB will continue to pay your base salary for a two-year period following such termination; HRB will pay to you bonus compensation for the fiscal year in which the termination occurs and for the fiscal year following the year of termination, such bonus compensation to be equal to the target award amount for the year in which the termination occurs; vesting of nonvested stock options will accelerate and all stock options may be exercisable for three months following termination; and HRB will continue health, life and disability insurance benefits for up to two years following the termination to the extent that you do not obtain similar benefits from another party.

Mr. George T. Robson  
June 18, 1996  
Page Two

"A Change of Control means (i) acquisition of beneficial ownership of 50% or more of Block's voting securities by an individual, entity or group other than Block or any of its affiliates; (ii) approval by Block's stockholders of a reorganization, merger or consolidation of Block (whether by a single transaction or a series of related transactions), but only if the beneficial owners of Block common stock immediately before the transaction (or related transactions) do not, immediately after the transaction (or related transactions), beneficially own, directly or indirectly, more than 50% of the company resulting from the transaction (or related transactions); (iii) a complete liquidation or dissolution of Block or of the sale or other disposition of all or substantially all of the assets of Block; or (iv)

turnover of more than a majority of the directors on the Board of Directors of Block as a result of a proxy contest or a series of proxy contests under the Securities and Exchange Commission proxy rules. Any event, transaction or series of transactions described in this paragraph that is initiated by Block shall not constitute a Change of Control under the terms of this letter.

"On the fifth anniversary of your employment by HRB, Block will consider and discuss with you the possible extension of the Change of Control provisions.

"The sale, distribution or other disposition by Block or any subsidiary of Block of all or substantially all of the common stock of CompuServe Corporation held directly or indirectly by Block on the date of this letter shall not constitute a Change of Control under the terms of this letter."

If the foregoing reflects your understanding of our agreement, please sign and return a copy of this letter to me, and the terms of this letter will become effective.

Very truly yours,

HRB Management, Inc.

Accepted and agreed to this 18th  
day of June, 1996:

/s/Richard H. Brown

/s/George T. Robson

-----  
Richard H. Brown

-----  
George T. Robson

## CALCULATION OF PRIMARY EARNINGS PER SHARE

	Year Ended April 30,		
	1996	1995	1994
	----	----	----
Net earnings	\$177,168,000	\$107,259,000	\$200,528,000
Weighted average number of shares outstanding- primary: Weighted average number of common shares outstanding	103,926,000	105,029,000	105,882,000
Dilutive effect of stock options after application of treasury stock method	524,000	708,000	887,000
Dilutive effect of Convertible Preferred Stock	1,609,000	134,000	-
Weighted average number of shares outstanding	106,059,000	105,871,000	106,769,000
Earnings per share: Primary	\$1.67	\$1.01	\$1.88
	=====	=====	=====

## CALCULATION OF FULLY DILUTED EARNINGS PER SHARE

	Year Ended April 30,		
	1996	1995	1994
	----	----	----
Net earnings	\$177,168,000	\$107,259,000	\$200,528,000
Weighted average number of shares outstanding - fully diluted: Shares used in calculating primary earnings per share	106,059,000	105,871,000	106,769,000
Additional effect of stock options after application of treasury stock method	-	155,000	203,000
Weighted average number of shares outstanding	106,059,000	106,026,000	106,972,000
Earnings per share: Fully diluted	\$1.67	\$1.01	\$1.87
	=====	=====	=====

## SUBSIDIARIES OF H&amp;R BLOCK, INC.

The following is a list of the direct and indirect subsidiaries of H&R Block, Inc., a Missouri corporation. All active subsidiaries do business under their corporate names listed below or close derivatives thereof:

Name	Jurisdiction in which organized
H&R Block Group, Inc	Delaware (1)
Block Investment Corporation	Delaware (1)
Bay Colony, Ltd.	Virginia (1)
HRB Management, Inc.	Missouri (2)
H&R Block Tax Services, Inc.	Missouri (2)
H&R Block Eastern Tax Services, Inc.	Missouri (3)
H&R Block of Dallas, Inc.	Texas (3)
HRB Partners, Inc.	Delaware (4)
H&R Block and Associates, L.P.	Delaware (5)
HRB Royalty, Inc.	Delaware (3)
BWA Advertising, Inc.	Missouri (3)
H&R Block Canada, Inc.	Canada (3)
H&R Block (Nova Scotia), Incorporated.	Nova Scotia (6)
H&R Block (Guam), Inc.	Guam (3)
H&R Block Limited.	New South Wales (7)
H&R Block The Income Tax People Limited.	New Zealand (3)
Block Financial Corporation	Delaware (2)
Franchise Partner, Inc.	Nevada (8)
HRB Financial Corporation	Utah (8)
Chach Key Corporation	Utah (8)
Companion Mortgage Corporation	Delaware (8)
MECA Sub - LFOD, Ltd.	New Hampshire (8)
Block Mortgage Company, L.L.C	Virginia (9)
CompuServe Corporation	Delaware (10)
CompuServe Incorporated	Ohio (11)
CompuPlex Incorporated	Ohio (12)
CompuServe Ventures Incorporated	Ohio (12)
CompuServe Works of Wonder, Inc.	Ohio (12)
CompuServe Systems Integration Group Southwest, Inc.	Texas (12)
CompuServe Canada Limited	Canada (12)
CompuServe Consulting Services (UK) Limited	United Kingdom (12)
CompuServe Information Services (UK) Limited	United Kingdom (12)
CompuServe Information Services GMBH	Germany (12)
CompuServe Information Services AG	Switzerland (12)
CompuServe Information Systems S.A.R.L..	France (12)
CompuServe A.B.	Sweden (12)
CompuServe Information Services, B.V	The Netherlands (12)
CompuServe International Pty, Ltd.	Australia (12)
CNS Information (S) Pte Ltd.	Singapore (12)
Spry, Inc.	Washington (12)
Spry Soft, Inc.	Washington (13)
Network Publishing Inc.	Utah (14)
Access Technology, Inc.	Massachusetts (15)
Companion Insurance, Ltd.	Bermuda (15)
HRB Investment, Inc.	Delaware (15)
PM Industries, Inc.	Kansas (15)

- (1) Wholly owned subsidiary of H&R Block, Inc.
- (2) Wholly owned subsidiary of H&R Block Group, Inc.
- (3) Wholly owned subsidiary of H&R Block Tax Services, Inc.
- (4) Wholly owned subsidiary of H&R Block of Dallas, Inc.
- (5) Limited partnership in which H&R Block Tax Services, Inc. is a 1% general partner and HRB Partners, Inc. is a 99% limited partner
- (6) Wholly owned subsidiary of H&R Block Canada, Inc.
- (7) Wholly owned subsidiary of HRB Royalty, Inc.
- (8) Wholly owned subsidiary of Block Financial Corporation
- (9) Limited liability company in which Bay Colony, Ltd. has a 99% membership interest and Block Financial Corporation has a 1% membership interest
- (10) 80.1%-owned subsidiary of H&R Block Group, Inc.
- (11) Wholly owned subsidiary of CompuServe Corporation
- (12) Wholly owned subsidiary of CompuServe Incorporated
- (13) Wholly owned subsidiary of Spry, Inc.
- (14) 55%-owned subsidiary of CompuServe Incorporated
- (15) Wholly owned subsidiary of HRB Management, Inc.

Exhibit 21 (continued)

<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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<CURRENT-LIABILITIES>		478247
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<PREFERRED-MANDATORY>		0
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<COMMON>		1089
<OTHER-SE>		1038500
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<TOTAL-COSTS>		1394307
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<INTEREST-EXPENSE>		0
<INCOME-PRETAX>		285294
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<CHANGES>		0
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<EPS-DILUTED>		0