

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

FORM 10-K

(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
incorporation or organization)

(I.R.S. Employer Identification
Number)

4400 Main Street, Kansas City, Missouri

64111

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code:

(816) 753-6900

Securities registered pursuant to Section 12(b) of the Act:

Title of each class

Name of each 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

Certain specified portions of the registrant's annual report to security holders for the fiscal year ended April 30, 1996, are incorporated herein by reference in response to Part II, Items 5 through 8, inclusive, and certain specified portions of the registrant's definitive proxy statement to be 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 of CompuServe Corporation for the fiscal year ended April 30, 1996, is incorporated herein by reference in response to Part I, Item 1.

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 all of the shares of H&R Block Tax Services, Inc., the Company's primary operating subsidiary involved in the business of income tax return preparation, electronic filing of income tax returns and the performance of other tax related services, as well as all of the shares of Block Financial Corporation, a subsidiary that develops and provides technology-driven financial services. More than 90% of the Company's total revenues from continuing operations are generated by H&R Block Tax Services, Inc. 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."

H&R Block Group, Inc. owns slightly in excess of 80% of CompuServe Corporation ("CompuServe") following 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. The Company has 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. In the Company's financial statements for fiscal year

1996, CompuServe's results have been reflected as discontinued operations.

The description of the business of CompuServe Corporation is contained in the annual report on Form 10-K 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. A copy of the Form 10-K 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.

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 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 p.l.c. 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.

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.

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, as well as technology-driven financial services.

INCOME TAX RETURN PREPARATION AND RELATED 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:

Tax Season Ended April 30
(in thousands)

	1992	1993	1994	1995	1996
	----	----	----	----	----
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,

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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

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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.

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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 approximately 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.

TECHNOLOGY-DRIVEN AND OTHER 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.

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

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:

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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 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.

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.

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ITEM 3. LEGAL PROCEEDINGS.

Following the end of fiscal year 1996, CompuServe Corporation and the Company were each served with a Summons and Class Action Complaint in a case entitled Greenfield v. CompuServe Corporation, et al. and filed in the Court of Common Pleas, Franklin County, Ohio. Also following the end of fiscal year 1996, a Class Action Complaint for Violations of Federal Securities Laws was filed in the United States District Court for the Southern District of Ohio in a case entitled Romine v. CompuServe Corporation, et al. Directors and certain executive officers of CompuServe at the time of the initial public offering of CompuServe common stock in April 1996 are additional named defendants in these actions. The Complaints allege violations of the Securities Act of 1933, the Ohio Securities Code and common law. The defendants intend to vigorously defend the litigation.

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

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been elected to serve at the discretion of the Board of Directors of the Company, are:

Name and age -----	Office(s) -----
Henry W. Bloch (73)	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.
Richard H. Brown (49)1	President and Chief Executive Officer since August 1995; Member of the Board of Directors since August 1995. 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, 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 Contoller and Treasurer from March 1994 until October 1994; Vice President and Corporate Contoller 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,

Name and age -----	Office(s) -----
	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: Mr. Brown resigned as President, Chief Executive Officer and a director of the corporation effective June 19, 1996, upon acceptance of such resignation by the Board of Directors that day. In addition to accepting Mr. Brown's resignation, the Board of Directors, at its meeting on June 19, 1996, elected Frank L. Salizzoni as President and Chief Executive Officer, effective immediately.

Mr. Brown 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.

Mr. Salizzoni, age 58, has been a director of the Company since 1988. He 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.

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.

ITEM 6. SELECTED FINANCIAL DATA.

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 "Selected Financial Data," and is hereby incorporated by reference.

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

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 "Management's Discussion and Analysis," and is hereby incorporated by reference.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

The information called for by this item and listed at Item 14(a)1 is contained in the Company's annual report to security holders for the fiscal year ended April 30, 1996, and is hereby incorporated by reference.

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 to be 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 to be 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 to be 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 to be 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 are incorporated by reference from the Company's annual report to security holders for the year ended April 30, 1996:

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Consolidated Statements of Earnings	20
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Consolidated Statements of Cash Flows	22
Notes to Consolidated Financial Statements	23
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2. 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 information 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.

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- 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.

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- 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 Presi-

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dent, Chief Financial Officer and Treasurer of the Company.

11 Statement re Computation of Per Share Earnings.

13 Those portions of the annual report to security holders for the fiscal year ended April 30, 1996 which are 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.

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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.

June 19, 1996

By /s/ Richard H. Brown

Richard H. Brown, 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/ Richard H. Brown ----- Richard H. Brown	President, Chief Executive Officer and Director (principal executive officer)
/s/ G. Kenneth Baum ----- G. Kenneth Baum	Director
/s/ Henry W. Bloch ----- Henry W. Bloch	Director
----- Robert E. Davis	Director
/s/ Donna R. Ecton ----- Donna R. Ecton	Director
/s/ Henry F. Frigon ----- Henry F. Frigon	Director
/s/ Roger W. Hale ----- Roger W. Hale	Director

(Signed as to each on June 19, 1996)

Signature -----	Title -----
/s/ Marvin L. Rich ----- Marvin L. Rich	Director
/s/ Frank L. Salizzoni ----- Frank L. Salizzoni	Director

/s/ Morton I. Sosland

Director

Morton I. Sosland

/s/ George T. Robson

Senior Vice President,
Chief Financial Officer
and Treasurer (principal financial
officer)

George T. Robson

/s/ Cheryl L. Givens

Assistant Vice President
and Corporate Controller
(principal accounting officer)

Cheryl L. Givens

(Signed as to each on June 19, 1996)

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INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in Post-Effective Amendment No. 4 to Registration Statement No. 33-185 of H&R Block, Inc. and subsidiaries (relating to shares of Common Stock issued under the 1984 Long-Term Executive Compensation Plan) on Form S-8, Registration Statement No. 33-33889 of H&R Block, Inc. and subsidiaries (relating to shares of Common Stock issuable under the 1989 Stock Option Plan for Outside Directors) on Form S-8, Registration Statement No. 33-54985 of H&R Block, Inc. and subsidiaries (relating to shares of Common Stock issued under the 1993 Long-Term Executive Compensation Plan) on Form S-8 and Registration Statement No. 33-64147 of H&R Block, Inc. and subsidiaries (relating to shares of Delayed Convertible Preferred Stock issuable under the Spry, Inc. 1995 Stock Option Plan) on Form S-8 of our reports dated June 18, 1996, appearing in and incorporated by reference in this Annual Report on Form 10-K of H&R Block, Inc. and subsidiaries for the year ended April 30, 1996.

/s/ Deloitte & Touche LLP

Kansas City, Missouri
July 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; such consolidated financial statements and report are included in your 1996 Annual Report to Stockholders and are incorporated herein by reference. 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
 June 18, 1996

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	\$20,100,000	\$ -	\$22,955,000	\$ 4,419,000
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

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 unvested 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.

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Mr. George T. Robson
June 18, 1996
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"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

Richard H. Brown

/s/George T. Robson

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

COMMON STOCK DATA

	Stock Price		Cash Dividend
	High	Low	Paid per Share
1995 Fiscal Year:			
Quarter ended 7/31/94	44 5/8	37 1/2	.28
Quarter ended 10/31/94	47 1/2	39	.31 1/4
Quarter ended 1/31/95	44 3/4	33	.31 1/4
Quarter ended 4/30/95	46 5/8	34 3/4	.31 1/4
1996 Fiscal Year:			
Quarter ended 7/31/95	42 5/8	34 1/2	.31 1/4
Quarter ended 10/31/95	43	36 1/8	.32
Quarter ended 1/31/96	48 7/8	31 1/2	.32
Quarter ended 4/30/96	42 1/8	32 5/8	.32

Traded on the New York Stock Exchange; Ticker Symbol: HRB

[Logo] Printed on recycled paper

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SELECTED FINANCIAL DATA

In thousands, except per share amounts and number of shareholders

	Year Ended April 30				
	1996	1995	1994	1993	1992
	-----	-----	-----	-----	-----
FOR THE YEAR:					
Total revenues	\$ 894,446	\$ 790,026	\$ 821,977	\$ 774,668	\$ 719,168
Net earnings from continuing operations before charge for purchased research and development	\$ 125,089	\$ 97,989	\$ 128,124	\$ 126,556	\$ 120,423
Net earnings from continuing operations(1)	\$ 125,089	\$ 97,989	\$ 103,052	\$ 126,556	\$ 120,423
Net earnings(1)	\$ 177,168	\$ 107,259	\$ 200,528	\$ 180,705	\$ 162,253
AT YEAR END:					
Total assets	\$1,417,561	\$ 1,078,038	\$ 1,074,704	\$ 1,005,834	\$ 962,664
Cash and marketable securities	\$ 435,167	\$ 444,981	\$ 620,091	\$ 439,526	\$ 391,386
Stockholders equity	\$1,039,593	\$ 685,865	\$ 707,875	\$ 650,488	\$ 613,713
Shares outstanding	103,417				
	104,863	106,149	106,355	106,598	
Number of shareholders	35,634	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	\$ 1.18	\$.92	\$ 1.21	\$ 1.18	\$ 1.10
Net earnings from continuing operations(1)	\$ 1.18	\$.92	\$.97	\$ 1.18	\$ 1.10
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	\$ 9.64	\$ 5.79	\$ 6.03	\$ 4.93	\$ 4.61
Return on total revenues(2)	14.0%	12.4%	15.6%	16.3%	16.7%
Return on beginning stockholders' equity	25.8%	15.2%	30.8%	29.4%	28.3%

(1) Fiscal 1994 includes a charge to earnings from continuing operations of \$25,072 (\$.24 per share) for purchased research and development in connection with the acquisition of MECA Software, Inc. Fiscal 1995 includes a charge to

earnings from discontinued operations of \$83,508 (\$.79 per share) for purchased research and development in connection with the acquisition of SPRY, Inc. See notes to consolidated financial statements.

(2) Before charge for purchased research and development.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

RESULTS OF OPERATIONS

SIGNIFICANT EVENTS IN FISCAL 1996

On February 20, 1996, the Company announced its intention to fully separate its wholly owned subsidiary, CompuServe Corporation ("CompuServe"). 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 intends to distribute its remaining ownership interest in CompuServe by means of a spin-off within approximately 12 months of the initial public offering, subject to certain conditions. CompuServe's results have been reflected as discontinued operations. CompuServe contributed \$.49, \$.88 and \$.57 per share in 1996, 1995 and 1994, respectively, exclusive of a charge of \$83.5 million for purchased research and development in 1995.

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 earnings from discontinued operations.

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; SPRY's operations are therefore included in discontinued operations since the date of acquisition.

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 net assets of discontinued operations by \$96.6 million at April 30, 1996, and increased net earnings from discontinued operations by \$57.3 million and net earnings per share by \$.54 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,

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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.

1996 COMPARED TO 1995

Service revenues. Service revenues increased 14.4% to \$764.6 million from \$668.3 million in 1995. 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. Credit card revenues were up \$10.9 million, or 79.3%, due to an increase in the number of accounts and related revolving balances.

Royalties. Royalties increased 6.4% to \$96.4 million from \$90.6 million last year, 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.

Investment income. Investment income declined 55.8% to \$10.5 million from \$23.7 million in 1995, which is attributable to two factors. Less 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.

Other income. Other income increased 207.8% to \$23.0 million from \$7.5 million in 1995, primarily due to the gain recorded on the sale of MECA of \$12.4 million.

Compensation and benefits. Compensation and benefits expense increased 9.9% to \$366.2 million from \$333.0 million last year. Tax preparation and support wages were higher by \$17.2 million, or 7.5%, corresponding to an increase in tax preparation fee revenues. Field manager wages were also up \$13.3 million, or 42.2%, primarily due to an increase in bonuses driven by the significant increases in the number of returns and net profits.

Occupancy and equipment. Occupancy and equipment expense increased .8% to \$141.6 million from \$140.5 million last year. Office rent, including commissions paid to department stores, increased \$4.9 million, or 6.8%. This

increase was principally offset by a decrease in fees paid to CompuServe for electronic transmission of tax returns by \$3.0 million, or 27.3%.

Marketing and advertising. Marketing and advertising expense increased 3.2% to \$57.1 million from \$55.3 million last year. In the United States, television, print and media advertising for tax related services increased 15.2%, while marketing associated with credit cards and tax preparation software decreased.

Supplies, freight and postage. Supplies, freight and postage expense decreased 3.0% to \$41.5 million from \$42.7 million last year, primarily as a result of management's efforts to contain costs.

Other expenses. Other expenses increased 39.4% to \$90.7 million from \$65.0 million last year. Bad debts expense increased by \$10.7 million, due to an increase in bank denials associated with an increase in the number of RALs, and an increase in the allowance for bad debts related to credit card portfolios. Goodwill amortization increased by \$7.2 million, primarily due to an impairment loss of \$8.4 million recognized on the tax preparation software business assets. Additionally, interest expense on corporate borrowings totaled \$2.0 million this year. There were no corporate borrowings during 1995.

Taxes on earnings. The effective tax rate increased to 36.7%, compared to 36.1% in 1995. The increase resulted principally from a decrease in income from tax-exempt investments.

1995 COMPARED TO 1994

Service revenues. Service revenues decreased 5.0% to \$668.3 million from \$703.3 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% in 1995.

Royalties. Royalties decreased 5.1% to \$90.6 million from \$95.4 million in 1994, also resulting from a decrease in electronic filing fees generated by franchises.

Investment income. Investment income improved 55.4% to \$23.7 million from \$15.3 million in 1994. Investment income in 1995 included gains of \$4.9 million from the sale of securities during the fourth quarter. Exclusive of such gains, investment income increased 23.4% over 1994 and resulted primarily from more funds being available for investment in 1995, including the proceeds from the sale of Interim Services Inc. received in the fourth quarter of fiscal 1994.

Other income. Other income decreased 7.4% to \$7.5 million from \$8.1 million in 1994. The decrease is attributable to a favorable damage settlement with a Canadian software vendor in 1994.

Compensation and benefits. Compensation and benefits expense increased 6.4% to \$333.0 million from \$312.9 million in 1994. Tax preparation wages were up \$9.7 million, or 5.8%, corresponding to the increase in tax preparation fees. In response to the changes implemented by the IRS, the Company hired client service coordinators to handle customer concerns, increasing expenses by \$3.0 million.

Occupancy and equipment. Occupancy and equipment expense increased 3.5% to \$140.5 million from \$135.8 million in 1994. The increase is attributable to an increase in rent expense for tax offices within the United States.

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Marketing and advertising. Marketing and advertising expense increased 21.2% to \$55.3 million from \$45.6 million in 1994. The increase was due to an increase of \$4.5 million, or 39.4%, in discounts and promotions offered in the United States to counteract the negative impact of the changes implemented by the IRS. Additionally, credit card marketing increased coincident with the introduction of CompuServe credit cards.

Supplies, freight and postage. Supplies, freight and postage expense increased 6.5% to \$42.7 million from \$40.1 million last year, primarily due to an increase in office supplies and postage expenses of the tax-related business in the United States.

Other expenses. Other expenses decreased 20.3% to \$65.0 million from \$81.6 million in 1994. Bad debts expense decreased \$10.2 million, resulting from a 50% decline in the number of RALs processed caused by the elimination of the

DDI, and Block Financial Corporation's decision to not make investments in RALs due to the IRS changes that increased credit risk. Additionally, the Company's charitable contributions were \$2.8 million less in 1995 than in 1994.

Taxes on earnings. The effective tax rate decreased to 36.1% in 1995 compared to 43.0% in 1994. The change resulted from a decrease in state and local income taxes in 1995 and a charge for purchased research and development in 1994 related to the acquisition of MECA, which is not deductible for income tax purposes.

LIQUIDITY AND CAPITAL RESOURCES

The Company's financial position remains strong, with cash and marketable securities of \$435.2 million at April 30, 1996, compared to \$445.0 million and \$620.1 million at the end of 1995 and 1994, respectively. 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 also maintains a year-round \$150 million line of credit to primarily support the funding of credit card receivables by BFC. At April 30, 1996 and 1995, net credit card receivables amounted to \$162.3 million and \$122.5 million, respectively, and commercial paper outstanding amounted to \$72.7 million and \$49.4 million, respectively.

At October 31, 1995, the Company's intercompany receivable from CompuServe was \$75 million, upon which interest accrued monthly through April 1996 at a rate equal to the prime rate at Commerce Bank of Kansas City, adjusted monthly. In April 1996, the Company received \$205 million in repayment of this intercompany receivable from the proceeds of CompuServe's initial public offering. In order to meet CompuServe's significant funding requirements during fiscal 1996, the Company obtained a \$200 million corporate credit facility. This line of credit was repaid and expired by the end of fiscal 1996. In the future, the Company's liquidity will no longer be affected by CompuServe, since CompuServe will use the remaining net proceeds from its initial public offering to meet prospective funding requirements.

With the exception of 1996 described above, 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. The Company intends to maintain its quarterly dividend of \$.32 per share until the distribution of CompuServe is completed, at which time the dividend policy will be reviewed in light of current business and market conditions. The Company will also 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.

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. Other than the possible repurchase of additional shares of the Company's common stock, there are no material commitments for capital investments as of April 30, 1996.

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CONSOLIDATED STATEMENTS OF EARNINGS

Amounts in thousands, except per share amounts

	Year Ended April 30		
	1996	1995	1994
	-----	-----	-----
REVENUES:			
Service revenues	\$ 764,618	\$ 668,293	\$ 703,264
Royalties	96,356	90,556	95,388
Investment income	10,468	23,703	15,256
Other income	23,004	7,474	8,069
	-----	-----	-----
	894,446	790,026	821,977
	-----	-----	-----
EXPENSES:			
Employee compensation and benefits	366,153	333,030	312,869
Occupancy and equipment	141,610	140,487	135,775
Marketing and advertising	57,105	55,330	45,644
Supplies, freight and postage	41,462	42,744	40,136
Other	90,659	66,040	81,614
Purchased research and development	--	--	25,072
	-----	-----	-----
	696,989	636,631	641,110
	-----	-----	-----
Earnings from continuing operations before taxes on earnings	197,457	153,395	180,867
Taxes on earnings	72,368	55,406	77,815
	-----	-----	-----
NET EARNINGS FROM CONTINUING OPERATIONS	125,089	97,989	103,052
Net earnings from discontinued operations (less applicable taxes of \$35,757, \$57,331 and \$50,080)	52,079	9,270	70,211
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	\$1.18	\$.92	\$.97
	=====	=====	=====
EARNINGS PER SHARE	\$1.67	\$1.01	\$1.88
	=====	=====	=====

See notes to consolidated financial statements.

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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)	\$ 58,414	\$ 90,248
Marketable securities	360,212	263,239
Receivables, less allowance for doubtful accounts of \$4,419 and \$7,274	214,548	260,198
Prepaid expenses	12,226	21,823
Net assets of discontinued operations	617,510	--
	-----	-----
Total current assets	1,262,910	635,508

INVESTMENTS AND OTHER ASSETS:		
Investments in marketable securities	16,541	91,494
Excess of cost over fair value of net tangible assets acquired, less accumulated amortization of \$17,733 and \$46,770	42,825	78,205
Other	43,770	45,383
	-----	-----
	103,136	215,082
PROPERTY AND EQUIPMENT, at cost less accumulated depreciation and amortization of \$122,914 and \$227,056		
	51,515	227,448
	-----	-----
	\$1,417,561	\$1,078,038
	=====	=====

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES:		
Notes payable	\$ 72,651	\$ 49,421
Accounts payable, accrued expenses and deposits	95,314	145,909
Accrued salaries, wages and payroll taxes	94,394	71,281
Accrued taxes on earnings	77,387	92,100
	-----	-----
Total current liabilities	339,746	358,711
OTHER NONCURRENT LIABILITIES		
	38,222	33,462
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
	-----	-----
	\$1,417,561	\$1,078,038
	=====	=====

See notes to consolidated financial statements.

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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	32,477	67,684	57,117
Provision for deferred taxes on earnings	1,183	3,440	(2,735)
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	(41,131)	(87,995)	2,284
Prepaid expenses	(259)	(1,735)	(412)
Net assets of discontinued operations	(55,771)	--	(17,370)
Accounts payable, accrued expenses and deposits	14,003	(24,994)	31,000
Accrued salaries, wages and payroll taxes	35,109	15,722	14,659
Accrued taxes on earnings	(16,156)	(31,911)	(300)
	-----	-----	-----
Net cash provided by operating activities	137,796	124,363	287,468
	-----	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of marketable securities	(851,993)	(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	(36,972)	(123,337)	(83,744)
Excess of cost over fair value of net tangible assets acquired, net of cash acquired	(11,139)	(47,773)	(46,570)
Proceeds from sale of subsidiaries	35,000	5,195	188,500
Proceeds from term loan to former subsidiary	--	--	30,000
Net advances from discontinued operations	35,004	--	--
Other, net	(3,829)	(5,856)	(24,198)
	-----	-----	-----
Net cash provided by (used in) investing activities	(2,872)	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
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 used in financing activities	(166,758)	(136,320)	(171,198)
	-----	-----	-----
Net increase (decrease) in cash	(31,834)	48,905	(2,074)
Cash at beginning of the year	90,248	41,343	43,417
	-----	-----	-----
Cash at end of the year	\$ 58,414	\$ 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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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Dollars 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 and Australia. More than 90% of total revenues are generated from tax return preparation, electronic filing of tax returns and other tax-related services. 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.

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 net assets of discontinued operations by \$96,636 at April 30, 1996, and increased net earnings from discontinued operations by \$57,305 and net earnings per share by \$.54 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%.

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, which are not material, are provided for temporary differences between financial and tax reporting, which consist principally of differences between accrual and cash basis accounting, 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 Corporation ("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.

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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	285,400	7	1	285,406	52,091	48	--	52,139
Other equity investments	--	--	--	--	49,100	--	--	49,100
Other debt investments	61,205	58	--	61,263	72,830	61	1	72,890
	359,787	505	80	360,212	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	2,545	935	20	3,460	2,737	396	115	3,018
Other equity investments	--	--	--	--	3,488	--	692	2,796
Other debt investments	--	--	--	--	999	3	--	1,002
	15,069	1,561	89	16,541	91,437	2,320	2,263	91,494
	\$374,856	\$2,066	\$169	\$376,753	\$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	\$347,364	\$347,431
After one year through five years	10,748	11,184
After five years through 10 years	12,688	12,883
	-----	-----
	\$370,800	\$371,498
	=====	=====

PROPERTY AND EQUIPMENT

A summary of property and equipment follows:

	April 30	
	1996 -----	1995 -----
Land	\$ 2,580	\$ 7,116
Buildings	17,824	50,625
Equipment	128,319	367,420
Leasehold improvements	25,706	29,343
	-----	-----
	174,429	454,504
Less accumulated depreciation and amortization	122,914	227,056
	-----	-----
	\$ 51,515	\$227,448
	=====	=====

Depreciation and amortization expense from continuing operations for 1996, 1995 and 1994 amount to \$21,006, \$20,690 and \$23,459, 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)

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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.

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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.

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
	----	----	----
Bad debts	\$ 20,100	\$ 9,396	\$ 19,616
Amortization of goodwill	11,471	4,319	1,915
Taxes and licenses	8,679	7,545	7,317
Travel and entertainment	7,219	7,913	6,425
Interest	5,529	4,056	3,798
Legal and professional	3,101	591	2,755

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	\$ 188,749	\$ 146,521	\$ 174,012
Foreign	8,708	6,874	6,855
	-----	-----	-----
	\$ 197,457	\$ 153,395	\$ 180,867
	=====	=====	=====

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	\$ 59,234	\$43,486	\$ 63,689
State	7,891	6,343	14,309
Foreign	4,060	3,253	3,026
	-----	-----	-----
	71,185	53,082	81,024
	-----	-----	-----
Deferred:			
Capitalized research and development	(10)	(61)	62
Deferred compensation	(1,068)	(4)	(1,729)
Depreciation	374	2,281	(1,289)
Inter-company profit upon sale of fixed assets	(5)	756	(257)
Other	1,892	(648)	4
	-----	-----	-----
	1,183	2,324	(3,209)
	-----	-----	-----
	\$ 72,368	\$56,406	\$ 77,815
	=====	=====	=====

Provision is not made for possible income taxes payable upon distribution of unremitted earnings of foreign subsidiaries. Such unremitted earnings aggregated \$58,091 at December 31, 1995. Management believes the cost to repatriate these earnings would not be material.

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	2.6%	2.7%	5.1%
Foreign taxes, net of federal income tax benefit	.5%	.5%	.4%
Purchased research and development	--	--	4.8%
Nontaxable federal income	(.8%)	(3.2%)	(2.3%)
Other	(.6%)	1.1%	--
	-----	-----	-----
Effective rate	36.7%	36.1%	43.0%
	=====	=====	=====

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. On January 30, 1996, the Company contributed its investment in SPRY to CompuServe; SPRY's operations are therefore included in discontinued operations since the date of acquisition. 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. Net earnings from discontinued operations 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.

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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 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. and the related gain on the sale of \$2,680 are included in net earnings of discontinued operations.

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.

SALE OF STOCK BY SUBSIDIARY

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. The Company intends to distribute its remaining ownership interest of 74,200,000 shares of CompuServe common stock by means of a spin-off within approximately 12 months of the initial public offering. The distribution will be subject to the receipt of a favorable ruling from the Internal Revenue Service or an opinion of counsel as to the tax-free nature of the transaction, certain other

conditions and the absence of any change in market conditions or other circumstances that cause the Company to conclude that the distribution is not in the best interests of its stockholders. CompuServe's results are reflected as discontinued operations, and amounts for prior periods have been similarly reported in the consolidated statements of earnings.

Summarized financial information for CompuServe follows:

	April 30	
	1996	1995
	----	----
Current assets	\$ 485,890	\$ 105,759
Noncurrent assets	479,938	217,798
	-----	-----
	\$ 965,828	\$ 323,557
	-----	-----
Current liabilities	\$ 138,399	\$ 89,886
Noncurrent liabilities	56,763	153,813
Stockholders' equity	770,666	79,858
	-----	-----
	\$ 965,828	\$ 323,557
	=====	=====

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	Year Ended April 30		
	1996	1995	1994
	-----	-----	-----
Revenues	\$793,165	\$582,793	\$429,886
Operating earnings	87,836	68,279	104,740
Net earnings	49,094	8,798	62,093

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 \$59,967, \$43,298, \$28,161, \$15,126 and \$7,927, respectively, with no significant commitments extending beyond that period of time. The Company's rent expense for the years 1996, 1995 and 1994 aggregated \$65,462, \$62,127 and \$57,234, respectively.

The Company maintains a year-round \$150,000 line of credit to support various financial activities conducted by Block Financial Corporation.

QUARTERLY FINANCIAL DATA (UNAUDITED)

Fiscal 1996 Quarter Ended				Fiscal 1995 Quarter Ended			
April 30,	Jan. 31,	Oct. 31,	July 31,	April 30,	Jan. 31,	Oct. 31,	July 31,
1996	1996	1995	1995	1995	1995	1994	1994

Revenues	\$712,291	\$111,041	\$ 37,539	\$ 33,575	\$614,129	\$116,616	\$ 39,002	\$ 20,279

Continuing operations:								
Earnings (loss) before provision for income taxes (benefits)	\$297,913	\$(26,129)	\$(37,205)	\$(37,122)	\$256,574	\$(28,105)	\$(36,365)	\$(38,709)
Provision for income taxes (benefits)	112,943	(10,432)	(14,835)	(15,308)	94,806	(10,720)	(13,891)	(14,789)

Net earnings (loss)	184,970	(15,697)	(22,370)	(21,814)	161,768	(17,385)	(22,474)	(23,920)
Net earnings (loss) from discontinued operations	741	10,226	14,072	27,040	(58,381)	25,469	21,222	20,960

Net earnings (loss)	\$185,711	\$(5,471)	\$(8,298)	\$5,226	\$103,387	\$8,084	\$(1,252)	\$(2,960)
=====								
Earnings (loss) per share from continuing operations	\$1.74	\$(.15)	\$(.21)	\$(.20)	\$1.52	\$(.16)	\$(.21)	\$(.23)
Earnings (loss) per share	1.75	(.05)	(.08)	.05	.97	.08	(.01)	(.03)

Discontinued operations includes a charge to earnings of \$83,508 (\$.79 per share) for purchased research and development in the fourth quarter of 1995, incurred in connection with the acquisition of SPRY.

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MANAGEMENT'S REPORT

The financial information in this Annual Report, including the consolidated financial statements, has been prepared by the management of H&R Block, Inc. Management believes the information presented in the Annual Report is consistent with the financial statements, the financial statements are prepared in accordance with generally accepted accounting principles, and the financial statements do not contain material misstatements due to fraud or error. Where appropriate, the financial statements reflect management's best estimates and judgments.

Management also is responsible for maintaining a system of internal accounting controls with the objectives of providing reasonable assurance that the Company's assets are safeguarded against material loss from unauthorized use or disposition, and that authorized transactions are properly recorded to permit the preparation of accurate financial data. However, limitations exist in any system of internal controls based on a recognition that the cost of the system should not exceed its benefits. The Company believes its system of accounting controls, of which its internal auditing function is an integral part, accomplishes the stated objectives.

Deloitte & Touche LLP, independent accountants, audit H&R Block's consolidated financial statements and issue an opinion thereon. Their audits are made in accordance with generally accepted auditing standards and include an objective, independent review of the system of internal controls to the extent necessary to express an opinion on the financial statements.

The Audit Committee of the Board of Directors, composed of outside directors, meets periodically with management, the independent accountants and the internal auditor to review matters relating to the Company's annual financial statements, internal audit activities, internal accounting controls and non-audit services provided by the independent accountants. The independent accountants and the internal auditor have full access to the Audit Committee and meet with it, both with and without management present, to discuss the scope and results of their audits including internal controls, audit and financial matters.

/s/ Richard H. Brown
Richard H. Brown
President and Chief Executive Officer

/s/ George T. Robson
George T. Robson
Senior Vice President,
Chief Financial Officer and Treasurer

INDEPENDENT AUDITORS' REPORT

Board of Directors and Stockholders
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
Deloitte & Touche LLP

Kansas City, Missouri
June 18, 1996

SUBSIDIARIES OF H&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)
Block Financial Services Company.....	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 SARL.....	France (12)
CompuServe AB.....	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)

Notes to Subsidiaries of H&R Block, Inc.:

- (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.

<ARTICLE> 5

<LEGEND>

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

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