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

ASSETS	OCTOBER 31, 1998 ----- (UNAUDITED)	APRIL 30, 1998 ----- (AUDITED)
CURRENT ASSETS		
Cash and cash equivalents	\$ 307,941	\$ 900,856
Marketable securities	148,753	346,158
Receivables, less allowance for doubtful accounts of \$47,493 and \$45,314	1,357,029	793,237
Prepaid expenses and other current assets	153,313	103,026
	-----	-----
TOTAL CURRENT ASSETS	1,967,036	2,143,277
INVESTMENTS AND OTHER ASSETS		
Investments in marketable securities	123,438	289,096
Excess of cost over fair value of net tangible assets acquired, net of amortization	295,441	288,580
Other	108,111	105,809
	-----	-----
	526,990	683,485
PROPERTY AND EQUIPMENT, at cost less accumulated depreciation and amortization		
	75,084	77,321
	-----	-----
	\$ 2,569,110	\$ 2,904,083
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Notes payable	\$ 1,235,989	\$ 643,002
Accounts payable, accrued expenses and deposits	86,524	114,875
Accrued salaries, wages and payroll taxes	11,817	96,168
Accrued taxes on earnings	129,792	422,847
	-----	-----
TOTAL CURRENT LIABILITIES	1,464,122	1,276,892
LONG-TERM DEBT		
	249,958	249,675
OTHER NONCURRENT LIABILITIES		
	38,341	35,884
STOCKHOLDERS' EQUITY		
Common stock, no par, stated value \$.01 per share	1,089	1,089
Additional paid-in capital	410,784	432,335
Retained earnings	905,384	1,010,545
Accumulated other comprehensive income (loss)	(31,588)	(24,515)
	-----	-----
	1,285,669	1,419,454
Less cost of 11,402,585 and 1,992,043 shares of common stock in treasury		
	468,980	77,822
	-----	-----
	816,689	1,341,632
	-----	-----
	\$ 2,569,110	\$ 2,904,083
	=====	=====

See Notes to Consolidated Financial Statements

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

	THREE MONTHS ENDED	

	OCTOBER 31,	
	1998	1997
	-----	-----
REVENUES		
Service revenues	\$ 63,937	\$ 56,469
Product revenues	23,154	22,201
Royalties	2,995	3,401
Other	3,542	921
	-----	-----
	93,628	82,992
	-----	-----
OPERATING EXPENSES		
Employee compensation and benefits	49,271	41,849
Occupancy and equipment	41,798	38,111
Interest	18,280	13,355
Marketing and advertising	8,492	8,430
Supplies, freight and postage	5,548	5,617
Other	31,269	28,662
	-----	-----
	154,658	136,024
	-----	-----
Operating loss	(61,030)	(53,032)
OTHER INCOME		
Investment income, net	9,646	3,191
Other, net	1,106	12
	-----	-----
	10,752	3,203
Loss from continuing operations before income tax benefit	(50,278)	(49,829)
Income tax benefit	(19,105)	(19,380)
	-----	-----
Net loss from continuing operations	(31,173)	(30,449)
Net loss from discontinued operations (less applicable income tax benefit of (\$6,730))	-	(10,782)
	-----	-----
Net loss	\$ (31,173)	\$ (41,231)
	=====	=====
Weighted average number of common shares outstanding	99,122	104,552
	=====	=====
Basic and diluted net loss per share from continuing operations	\$ (.31)	\$ (.29)
	=====	=====
Basic and diluted net loss per share	\$ (.31)	\$ (.39)
	=====	=====
Dividends per share	\$.25	\$.20
	=====	=====

See Notes to Consolidated Financial Statements

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

	SIX MONTHS ENDED	
	OCTOBER 31,	
	1998	1997
	-----	-----
REVENUES		
Service revenues	\$ 111,639	\$ 86,829
Product revenues	51,796	28,212
Royalties	4,062	4,418
Other	5,018	2,743
	172,515	122,202
	-----	-----
OPERATING EXPENSES		
Employee compensation and benefits	92,706	72,042
Occupancy and equipment	82,559	73,711
Interest	35,831	21,540
Marketing and advertising	12,290	11,729
Supplies, freight and postage	8,622	7,734
Other	60,168	49,177
	292,176	235,933
	-----	-----
Operating loss	(119,661)	(113,731)
OTHER INCOME		
Investment income, net	23,536	8,381
Other, net	1,106	12
	24,642	8,393
	-----	-----
Loss from continuing operations before income tax benefit	(95,019)	(105,338)
Income tax benefit	(36,107)	(40,028)
	-----	-----
Net loss from continuing operations	(58,912)	(65,310)
Net loss from discontinued operations (less applicable income tax benefit of (\$8,218))	-	(14,056)
	-----	-----
Net loss	\$ (58,912)	\$ (79,366)
	=====	=====
Weighted average number of common shares outstanding	102,049	104,327
	=====	=====
Basic and diluted net loss per share from continuing operations	\$ (.58)	\$ (.63)
	=====	=====
Basic and diluted net loss per share	\$ (.58)	\$ (.76)
	=====	=====
Dividends per share	\$.45	\$.40
	=====	=====

See Notes to Consolidated Financial Statements

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

	SIX MONTHS ENDED	

	OCTOBER 31,	

	1998	1997
	----	----
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (58,912)	\$ (79,366)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	26,884	19,034
Other noncurrent liabilities	2,457	2,457
Changes in:		
Receivables	(563,792)	215,320
Prepaid expenses and other current assets	(50,287)	(26,922)
Net assets of discontinued operations	-	13,304
Accounts payable, accrued expenses and deposits	(28,351)	(90,562)
Accrued salaries, wages and payroll taxes	(84,351)	(102,073)
Accrued taxes on earnings	(294,179)	(75,814)
	-----	-----
NET CASH USED IN OPERATING ACTIVITIES	(1,050,531)	(124,622)
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of marketable securities	(198,969)	(132,328)
Maturities of marketable securities	564,988	188,309
Purchases of property and equipment	(14,896)	(6,826)
Excess of cost over fair value of net tangible assets acquired, net of cash acquired	(16,513)	(227,787)
Other, net	(11,024)	(16,016)
	-----	-----
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	323,586	(194,648)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayments of notes payable	(3,277,627)	(6,045,212)
Proceeds from issuance of notes payable	3,870,614	5,887,832
Proceeds from issuance of long-term debt	-	249,650
Dividends paid	(46,248)	(41,670)
Payments to acquire treasury shares	(472,566)	-
Proceeds from stock options exercised	59,857	27,694
	-----	-----
NET CASH PROVIDED BY FINANCING ACTIVITIES	134,030	78,294
	-----	-----
NET DECREASE IN CASH AND CASH EQUIVALENTS	(592,915)	(240,976)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	900,856	457,079
	-----	-----
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	\$ 307,941	\$ 216,103
	=====	=====
SUPPLEMENTAL CASH FLOW DISCLOSURES:		
Income taxes paid	\$ 257,402	\$ 36,272
Interest paid	33,524	18,643

See Notes to Consolidated Financial Statements

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

1. The Consolidated Balance Sheet as of October 31, 1998, the Consolidated Statements of Operations for the three and six months ended October 31,

1998 and 1997, and the Consolidated Statements of Cash Flows for the six months ended October 31, 1998 and 1997 have been prepared by the Company, without audit. In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position, results of operations and cash flows at October 31, 1998 and for all periods presented have been made.

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

Principles of consolidation: The consolidated financial statements include the accounts of the Company, all majority-owned subsidiaries and companies that are directly or indirectly controlled by the Company through majority ownership or otherwise.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. These consolidated financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's April 30, 1998 Annual Report to Shareholders.

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

2. On January 31, 1998, the Company completed the sale of all of its interest in CompuServe Corporation (CompuServe) to a subsidiary of WorldCom, Inc. (WorldCom). The Consolidated Statements of Operations for the three and six months ended October 31, 1997 and the Consolidated Statement of Cash Flows for the six months ended October 31, 1997 reflect CompuServe as discontinued operations. CompuServe's revenues for the three and six months ended October 31, 1997 were \$205.4 million and \$411.1 million, respectively.

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3. Receivables consist of the following:

	October 31, ----- 1998 ----	April 30, ----- 1998 ---- (Audited)
Mortgage loans held for sale	\$ 1,057,348	\$ 448,102
Credit card loans	188,642	202,852
Other	158,532	187,597
	----- 1,404,522	----- 838,551
Allowance for doubtful accounts	47,493	45,314
	----- \$ 1,357,029	----- \$ 793,237
	=====	=====

4. The Company files its Federal and state income tax returns on a calendar year basis. The Consolidated Statements of Operations reflect the effective tax rates expected to be applicable for the respective full fiscal years.
5. Basic and diluted net loss per share is computed using the weighted average number of shares outstanding during each period. Diluted net loss per share excludes the impact of common stock options outstanding of 6,775,159 shares

and the conversion of 712 shares of preferred stock to common stock, as they are antidilutive. The weighted average shares outstanding for the six months ended decreased to 102,049,000 from 104,327,000 last year, due to the repurchase of treasury shares by the Company during the period from February 1998 to October 1998. The decrease was partially offset by stock option exercises during fiscal 1998 and 1999.

6. During the six months ended October 31, 1998 and 1997, the Company issued 1,918,558 and 878,506 shares, respectively, pursuant to provisions for exercise of stock options under its stock option plans. During the six months ended October 31, 1998, the Company acquired 11,365,100 shares of its common stock at an aggregate cost of \$472,566.
7. CompuServe, certain current and former officers and directors of CompuServe and the registrant have been named as defendants in six lawsuits pending before the state and Federal courts in Columbus, Ohio. All suits allege similar violations of the Securities Act of 1933 based on assertions of omissions and misstatements of fact in connection with CompuServe's public filings related to its initial public offering in April 1996. One state lawsuit also alleges certain oral omissions and misstatements in connection with such offering. Relief sought in the lawsuits is unspecified, but includes pleas for rescission and damages. One Federal lawsuit names the lead underwriters of CompuServe's initial public offering as additional defendants and as representatives of a defendant class consisting of all underwriters who participated in such offering. The Federal suits were consolidated, the defendants filed a motion to dismiss the consolidated suits, the district court stayed all proceedings pending the outcome of the state court suits, and the United States Court of Appeals for the Sixth Circuit affirmed such stay on November 10, 1998. The four state court lawsuits also allege violations of various state statutes and common law of negligent misrepresentation in addition to the 1933 Act claims. The state lawsuits were consolidated for discovery purposes and defendants filed a motion for summary judgment covering all four state lawsuits. In the state lawsuits, the court entered an order in July 1998 that the suits entitled Harvey

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Greenfield v. CompuServe Corporation, et al., Jeffrey Schnipper v. CompuServe Corporation, and Philip Silverglate v. CompuServe Corporation, et al. be maintained as a class action on behalf of the following class:

"All persons and entities who purchased shares of common stock of CompuServe Corporation between April 18, 1996 pursuant to the CompuServe's initial public offering or on the open market and July 16, 1996, and who were damaged thereby. All named defendants to these consolidated actions, members of their immediate families, any entity in which they have a controlling interest, and their legal representatives, heirs, successors or assigns are excluded from the class."

Plaintiffs Greenfield, Schnipper and Silverglate were designated as class representatives. The Florida State Board of Administration v. CompuServe Corporation, et al. case pending in state court was not included in the class certification order as the plaintiff in such case did not seek class certification of its action. As a part of the sale of its interest in CompuServe, the Company agreed to indemnify WorldCom and CompuServe against 80.1% of any losses and expenses incurred by them with respect to these lawsuits. The defendants are vigorously defending these lawsuits.

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

October 31,	April 30,
-----	-----
1998	1998
----	----
	(Audited)

Condensed balance sheets:

Cash and cash equivalents	\$ 26,518	\$ 30,895
Finance receivables, net	1,341,162	737,005
Other assets	316,605	311,759
	-----	-----
Total assets	\$ 1,684,285	\$ 1,079,659
	=====	=====
Commercial paper	\$ 1,235,988	\$ 643,002
Long-term debt	249,700	249,675
Other liabilities	60,754	57,372
Stockholder's equity	137,843	129,610
	-----	-----
Total liabilities and stockholder's equity	\$ 1,684,285	\$ 1,079,659
	=====	=====

	Three months ended		Six months ended	
	October 31,		October 31,	
	1998	1997	1998	1997
	----	----	----	----
Condensed statements of operations:				
Revenues	\$ 61,727	\$ 50,508	\$ 123,556	\$ 74,360
Earnings (loss) from operations	5,205	2,126	12,353	(4,204)
Net earnings (loss)	2,726	1,299	8,259	(2,588)

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9. The Company sells short treasury securities under an open repurchase agreement that can be adjusted at any time by either party. The position on certain or all of the fixed rate mortgages is closed when the Company enters into a forward commitment to sell those mortgages. The effectiveness of the hedge is measured by a historical and probable future high correlation of changes in the fair value of the hedging instruments with changes in value of the hedged item. If correlation ceases to exist, hedge accounting will be terminated and gains or losses are recorded in revenues. During the second quarter of fiscal 1999, the Company's short treasury securities no longer correlated with the hedged item and, therefore, the hedge was terminated. A loss of \$2.5 million was recognized upon termination. At October 31, 1998, the Company had no hedging instruments in place.
10. The Company adopted Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income" (SFAS 130) in the first quarter of fiscal 1999. SFAS 130 requires that all changes in equity during the period, except those resulting from investments by and distributions to owners, be reported as "comprehensive income" in the financial statements. The Company's comprehensive income is comprised of net earnings (loss), foreign currency translation adjustments and the change in the net unrealized gain or loss on marketable securities. The adoption of SFAS 130 had no effect on the Company's consolidated financial statements. The components of comprehensive income (loss) during the three and six months ended October 31, 1998 and 1997 were:

	Three months ended		Six months ended	
	October 31,		October 31,	
	1998	1997	1998	1997
	----	----	----	----
Net loss	\$ (31,173)	\$ (41,231)	\$ (58,912)	\$ (79,366)
Change in net unrealized gain (loss) on mkt. securities	897	(568)	1,832	(105)
Change in foreign currency translation adjustments	(1,503)	(1,163)	(8,905)	(1,269)
	-----	-----	-----	-----
Comprehensive income (loss)	\$ (31,779)	\$ (42,962)	\$ (65,985)	\$ (80,740)
	=====	=====	=====	=====

11. In October 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 134, "Accounting for Mortgage-Backed Securities Retained after the Securitization of Mortgage Loans Held for Sale by a Mortgage Banking Enterprise" (SFAS 134), effective for the Company's fourth quarter of fiscal 1999. SFAS 134 requires that mortgage-backed securities or other interests retained after a securitization be classified based on the intent to sell or hold the investments. The Company does not anticipate that the implementation of SFAS 134 will have a material impact on the consolidated financial statements.

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12. In the first quarter of fiscal year 1999, the Company acquired operations that management determined to be a new reportable operating segment. The new segment, Business services, is primarily engaged in providing accounting, tax and consulting services to business clients and tax, estate planning and financial planning services to individuals. The Business services segment currently offers its services through regional accounting firms based in Kansas City, Missouri and Chicago, Illinois. Revenues of this segment are seasonal in nature.

Information concerning the Company's operations by reportable operating segments for the three and six months ended October 31, 1998 and 1997 is as follows:

	Three months ended		Six months ended	
	October 31,		October 31,	
	1998	1997	1998	1997
Revenues:				
U.S. tax operations	\$ 18,400	\$ 17,707	\$ 30,579	\$ 29,139
International tax operations	11,817	13,470	15,254	16,850
Mortgage operations	52,888	41,309	105,593	55,517
Credit card operations	8,015	9,597	16,329	18,904
Business services	1,534	-	2,864	-
Unallocated corporate	974	1,098	1,896	2,108
Inter-segment sales	-	(189)	-	(316)
	<u>\$ 93,628</u>	<u>\$ 82,992</u>	<u>\$ 172,515</u>	<u>\$ 122,202</u>
Earnings (loss) from continuing operations:				
U.S. tax operations	\$ (61,316)	\$ (54,808)	\$ (119,132)	\$ (104,183)
International tax operations	(2,263)	(1,125)	(8,234)	(6,249)
Mortgage operations	10,538	12,565	24,325	12,074
Credit card operations	(29)	(4,758)	(1,995)	(7,740)
Business services	(135)	-	(249)	-
Unallocated corporate	(2,281)	(1,569)	(4,389)	(2,715)
Acquisition interest expense	(4,438)	(3,327)	(8,881)	(4,908)
Investment income, net	9,646	3,193	23,536	8,383
Loss from continuing operations before income tax benefit	<u>\$ (50,278)</u>	<u>\$ (49,829)</u>	<u>\$ (95,019)</u>	<u>\$ (105,338)</u>

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

EXCEPT FOR HISTORICAL INFORMATION CONTAINED HEREIN, THE MATTERS ADDRESSED IN THIS DISCUSSION ARE FORWARD-LOOKING STATEMENTS THAT ARE SUBJECT TO RISKS AND

UNCERTAINTIES, WHICH COULD CAUSE ACTUAL RESULTS TO DIFFER MATERIALLY. SUCH RISKS AND UNCERTAINTIES INCLUDE, BUT ARE NOT LIMITED TO, YEAR 2000 READINESS OF THE COMPANY, ITS FRANCHISEES OR THIRD PARTIES; AND ECONOMIC, COMPETITIVE, GOVERNMENTAL AND VARIOUS OTHER FACTORS AFFECTING THE COMPANY'S OPERATIONS, MARKETS, PRODUCTS, SERVICES AND PRICES.

FINANCIAL CONDITION

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

Working capital decreased to \$502.9 million at October 31, 1998 from \$866.4 million at April 30, 1998. The working capital ratio at October 31, 1998 is 1.3 to 1, compared to 1.7 to 1 at April 30, 1998. The decrease in working capital and the working capital ratio is primarily due to the repurchase of treasury shares and the seasonal nature of the Company's U.S. tax operations segment. Tax return preparation occurs almost entirely in the fourth quarter and has the effect of increasing certain assets and liabilities during this time.

The Company maintains seasonal lines of credit to support short-term borrowing facilities in the United States and Canada. The credit limits of these lines fluctuate according to the amount of short-term borrowings outstanding during the year.

The Company incurs short-term borrowings throughout the year to fund receivables associated with its nonconforming mortgage loan, credit card and other financial services programs. These short-term borrowings in the U.S. are supported by a \$1.3 billion back-up credit facility through November 1998, subject to renewal. In November, the credit facility was increased to \$1.85 billion through November 1999.

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

At October 31, 1998, short-term borrowings used to fund mortgage loans, credit cards and other programs increased to \$1,236.0 million from \$643.0 million at April 30, 1998 due mainly to the funding of mortgage operations. For the six months ended October 31, 1998 and 1997, interest expense was \$35.8 million and \$21.5 million, respectively. The increase in interest expense is primarily attributable to the funding of mortgage operations with short-term borrowings and the debt incurred to fund the acquisition of Option One Mortgage Corporation (Option One) in June 1997.

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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. In July 1996, the Company announced its intention to repurchase up to 10 million additional shares in the open market over a two-year period following the separation of CompuServe Corporation. At October 31, 1998, 16.5 million shares had been repurchased. The Company plans to continue to purchase its shares on the open market in accordance with these authorizations, subject to various factors including the price of the stock, availability of excess cash, the ability to maintain financial flexibility, securities laws restrictions and other investment opportunities available.

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RESULTS OF OPERATIONS

FISCAL 1999 COMPARED TO FISCAL 1998

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

THREE MONTHS ENDED OCTOBER 31, 1998 COMPARED TO
THREE MONTHS ENDED OCTOBER 31, 1997
(AMOUNTS IN THOUSANDS)

	Revenues		Earnings (loss)	
	1998	1997	1998	1997
U.S. tax operations	\$ 18,400	\$ 17,707	\$ (61,316)	\$ (54,808)
International tax operations	11,817	13,470	(2,263)	(1,125)
Mortgage operations	52,888	41,309	10,538	12,565
Credit card operations	8,015	9,597	(29)	(4,758)
Business services	1,534	-	(135)	-
Unallocated corporate	974	1,098	(2,281)	(1,569)
Acquisition interest expense	-	-	(4,438)	(3,327)
Investment income, net	-	-	9,646	3,193
Inter-segment sales	-	(189)	-	-
	<u>\$ 93,628</u>	<u>\$ 82,992</u>	(50,278)	(49,829)
Income tax benefit			(19,105)	(19,380)
Net loss from continuing operations			(31,173)	(30,449)
Net loss from discontinued operations			-	(10,782)
Net loss			<u>\$ (31,173)</u>	<u>\$ (41,231)</u>

Consolidated revenues for the three months ended October 31, 1998 increased 12.8% to \$93.6 million from \$83.0 million reported last year. The increase is primarily due to revenues from Mortgage operations of \$52.9 million, a 28.0% increase over last year, and revenues from the new Business services segment, acquired in May 1998. These increases were offset by lower revenues from International and Credit card operations.

The consolidated pretax loss from continuing operations for the second quarter of fiscal 1999 increased to \$50.3 million from \$49.8 million in the second quarter of last year. The increase is attributable to increased losses from U.S. tax operations and decreased earnings from Mortgage operations that was partially offset by higher investment income and improved results from Credit card operations.

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The net loss from continuing operations was \$31.2 million, or \$.31 per share, compared to \$30.4 million, or \$.29 per share, for the same period last year.

An analysis of operations by reportable operating segments follows.

U.S. TAX OPERATIONS

Revenues increased 3.9% to \$18.4 million from \$17.7 million last year, resulting primarily from increased revenues from sales of non-financial software.

The pretax loss increased 11.9% to \$61.3 million from \$54.8 million in the second quarter of last year due to normal operational increases in compensation and benefits and rent expenses. In addition to the normal increases, rent expense increased due to the amount of tax office space maintained under lease

during this year's off-season and employee benefits expense increased due to employer taxes paid on the exercise of non-qualified seasonal stock options. Due to the nature of this segment's business, second quarter operating results are not indicative of expected results for the entire fiscal year.

INTERNATIONAL TAX OPERATIONS

Revenues decreased 12.3% to \$11.8 million compared to the prior year's second quarter. The decrease is principally attributable to Australia operations. In local currency, Australia reported a 7.7% increase in revenues. However, due to the decline in the value of the Australian dollar compared to the U.S. dollar, Australia revenues in U.S. dollars declined \$1.6 million.

The pretax loss increased 101.2% to \$2.3 million from \$1.1 million last year. The increase is due to the impact of translation from Australian dollars, the continued expansion in the United Kingdom and normal operational increases in compensation and other facility-related expenses in Canada. Due to the nature of this segment's business, second quarter operating results are not indicative of expected results for the entire fiscal year.

MORTGAGE OPERATIONS

Revenues increased 28.0% to \$52.9 million from \$41.3 million in the same period last year. The increase is attributable to a higher volume of loan sales and increased interest income over the prior year. Option One originated and sold \$837.9 million and \$539.6 million in loans, respectively, during the second quarter of fiscal 1999, compared to \$499.0 million originated and \$474.6 million sold in the second quarter last year. Companion Mortgage contributed improved revenues due to interest income earned on higher balances of mortgage loans held for sale. These increases were reduced by a one-time loss of \$2.5 million on the termination of a hedging instrument.

Mortgage operations pretax earnings of \$10.5 million declined this year compared to earnings of \$12.6 million during the second quarter of fiscal 1998. The decline in earnings is due to the timing of loan sales and increased compensation, and occupancy and equipment expenses due to the expansion of Option One's operations. Option One contributed \$10.2 million this quarter compared to \$13.3 million in the same period last year.

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CREDIT CARD OPERATIONS

Revenues decreased 16.5% to \$8.0 million from \$9.6 million in the prior year due to a decline in the average revolving credit card balance by 19.6% from the second quarter of fiscal 1998.

The pretax loss declined 99.4% to \$29 thousand from \$4.8 million last year. The decrease is attributable to (1) lower expenses from bad debts and marketing and advertising; (2) the write-off of \$1.5 million in capitalized salaries in the second quarter last year; (3) the sale of WebBank resulting in a \$1.1 million pretax gain; and (4) the winding down of online services this year.

BUSINESS SERVICES

Business services is a new reportable operating segment for fiscal year 1999. Business services contributed revenues of \$1.5 million and a pretax loss of \$135 thousand for the second quarter of fiscal 1999, including goodwill amortization of \$88 thousand. Due to the nature of this segment's business, revenues are slightly seasonal, while expenses are relatively fixed throughout the year. Results for the second quarter are not indicative of the expected results for the entire year.

INVESTMENT INCOME, NET

Net investment income increased 202.1% to \$9.6 million from \$3.2 million last year. The increase is due to additional funds available for investment resulting from the proceeds of the monetization of WorldCom, Inc. stock during fiscal 1998.

UNALLOCATED CORPORATE AND ADMINISTRATIVE

The unallocated corporate and administrative pretax loss for the second quarter increased 45.4% to \$2.3 million from \$1.6 million in the comparable period last year. The increase is a result of higher losses at the Company's captive insurance subsidiary, increased employee costs and the start-up of a business that offers financial planning services through the Company's tax offices.

Acquisition interest expense of \$4.4 million represents the interest on the debt associated with the acquisition of Option One.

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THREE MONTHS ENDED OCTOBER 31, 1998 (SECOND QUARTER) COMPARED TO
THREE MONTHS ENDED JULY 31, 1998 (FIRST QUARTER)
(AMOUNTS IN THOUSANDS)

	Revenues		Earnings (loss)	
	2nd Qtr	1st Qtr	2nd Qtr	1st Qtr
U.S. tax operations	\$ 18,400	\$ 12,179	\$ (61,316)	\$ (57,816)
International tax operations	11,817	3,437	(2,263)	(5,971)
Mortgage operations	52,888	52,705	10,538	13,787
Credit card operations	8,015	8,314	(29)	(1,966)
Business services	1,534	1,330	(135)	(114)
Unallocated corporate	974	922	(2,281)	(2,108)
Acquisition interest expense	-	-	(4,438)	(4,443)
Investment income, net	-	-	9,646	13,890
Inter-segment sales	-	-	-	-
	<u>\$ 93,628</u>	<u>\$ 78,887</u>	<u>(50,278)</u>	<u>(44,741)</u>
Income tax benefit			(19,105)	(17,002)
Net loss from continuing operations			(31,173)	(27,739)
Net loss from discontinued operations			-	-
Net loss			<u>\$ (31,173)</u>	<u>\$ (27,739)</u>

Consolidated revenues for the three months ended October 31, 1998 increased 18.7% to \$93.6 million from \$78.9 million reported in the first quarter of fiscal 1999. The increase is primarily due to revenues from International tax and U.S. tax operations related to the Australian tax filing season and tuition tax school fees in the U.S. and Canada.

The consolidated pretax loss from continuing operations for the second quarter of fiscal 1999 increased to \$50.3 million from \$44.7 million in the first quarter of this year. The increase is attributable to decreased investment income, increased losses from U.S. tax operations and a decline in earnings from Mortgage operations.

The net loss from continuing operations was \$31.2 million, or \$.31 per share, compared to \$27.7 million, or \$.26 per share, for the first quarter.

An analysis of operations by reportable operating segments follows.

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U.S. TAX OPERATIONS

Revenues increased 51.1% to \$18.4 million from \$12.2 million in the first quarter, resulting primarily from tuition tax school fees, which contributed \$5.7 million to the increase. Tuition tax school fees are seasonal.

The pretax loss increased 6.1% to \$61.3 million from \$57.8 million in the three months ended July 31, 1998. The increased loss is due to increased marketing and advertising and supplies expenses related to tuition tax schools and increased employee benefits due to employer taxes paid on the exercise of non-qualified seasonal stock options.

INTERNATIONAL TAX OPERATIONS

Revenues increased to \$11.8 million compared to the first quarter revenues of \$3.4 million. The increase is entirely due to the onset of the tax season in Australia, which contributed \$9.2 million to the increase. The increase was partially offset by a decline in tax preparation and discounted return fees in Canada due to a decrease in the number of returns prepared.

The pretax loss decreased 62.1% to \$2.3 million from \$6.0 million in the first quarter. The improved results are attributable to the Australian tax-filing season which contributed earnings of \$3.5 million compared to a pretax loss of \$1.2 million in the quarter ended July 31, 1998. The improved results were reduced by increased losses in Canada due to increased marketing and advertising and supplies expenses.

MORTGAGE OPERATIONS

Revenues increased 0.3% to \$52.9 million from \$52.7 million in the prior quarter. The increase is due to interest income earned on higher balances of mortgage loans held for sale at Companion Mortgage. Decreased revenues at Option One, resulting from the timing of loan sales, offset this increase.

Pretax earnings decreased 23.6% to \$10.5 million from \$13.8 million in the three months ended July 31, 1998. The decline is principally due to Option One, which contributed earnings of \$10.2 million, a 27.2% decline, and increased losses from an equity investment. These losses were partially offset by improved results from the Company's other mortgage entities.

CREDIT CARD OPERATIONS

Revenues decreased 3.6% to \$8.0 million from \$8.3 million in the prior quarter due to a decline in the average revolving credit card balance by 3.1% from the first quarter of fiscal 1999.

The pretax loss declined 98.5% to \$29 thousand from \$2.0 million in the first quarter. The decrease is attributable to lower bad debt expense and the \$1.1 million pretax gain on the sale of WebBank.

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BUSINESS SERVICES

Business services is a new reportable operating segment for fiscal year 1999. Revenues increased 15.3% to \$1.5 million from \$1.3 million in the three months ended July 31, 1998. The pretax loss increased 18.4% to \$135 thousand due to increased compensation and national office expenses.

INVESTMENT INCOME, NET

Net investment income decreased 30.6% to \$9.6 million from \$13.9 million in the first quarter of fiscal 1999. The decrease resulted from less funds available for investment.

UNALLOCATED CORPORATE AND ADMINISTRATIVE

The unallocated corporate and administrative pretax loss for the second quarter increased 8.2% to \$2.3 million from \$2.1 million in the first quarter. The increase is due to higher employee costs and the timing of legal and audit expenses.

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SIX MONTHS ENDED OCTOBER 31, 1998 COMPARED TO
SIX MONTHS ENDED OCTOBER 31, 1997
(AMOUNTS IN THOUSANDS)

	Revenues		Earnings (loss)	
	1998	1997	1998	1997
U.S. tax operations	\$ 30,579	\$ 29,139	\$ (119,132)	\$ (104,183)
International tax operations	15,254	16,850	(8,234)	(6,249)
Mortgage operations	105,593	55,517	24,325	12,074
Credit card operations	16,329	18,904	(1,995)	(7,740)
Business services	2,864	-	(249)	-
Unallocated corporate	1,896	2,108	(4,389)	(2,715)
Acquisition interest expense	-	-	(8,881)	(4,908)
Investment income, net	-	-	23,536	8,383
Inter-segment sales	-	(316)	-	-
	<u>\$ 172,515</u>	<u>\$ 122,202</u>	<u>(95,019)</u>	<u>(105,338)</u>
Income tax benefit			(36,107)	(40,028)
Net loss from continuing operations			(58,912)	(65,310)
Net loss from discontinued operations			-	(14,056)
Net loss			<u>\$ (58,912)</u>	<u>\$ (79,366)</u>

Consolidated revenues for the six months ended October 31, 1998 increased 41.2% to \$172.5 million from \$122.2 million reported last year. The increase is primarily due to revenues from Mortgage operations of \$105.6 million, a 90.2% increase over last year.

The consolidated pretax loss from continuing operations for the first six months of fiscal 1999 decreased to \$95.0 million from \$105.3 million last year. The decrease is attributable to increased investment income and increased earnings from Mortgage operations and Credit card operations, which were reduced by increased losses from U.S. tax operations.

The net loss from continuing operations was \$58.9 million, or \$.58 per share, compared to \$65.3 million, or \$.63 per share, for the same period last year.

An analysis of operations by reportable operating segments follows.

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U.S. TAX OPERATIONS

Revenues increased 4.9% to \$30.6 million from \$29.1 million last year, resulting

primarily from higher non-financial software sales and tax preparation fees, which is attributable to increases in pricing.

The pretax loss increased 14.3% to \$119.1 million from \$104.2 million in the comparable period last year due to normal operational increases in compensation, rent and other facility-related expenses. Also contributing to the increases in rent and other facility-related expenses is an increase in the amount of tax office space maintained under lease during this year's off-season. Due to the nature of this segment's business, the six month operating results are not indicative of expected results for the entire fiscal year.

INTERNATIONAL TAX OPERATIONS

Revenues decreased 9.5% to \$15.3 million compared to the prior year. The decrease is entirely due to foreign currency translation. In local currencies, revenues increased for all international entities.

The pretax loss increased 31.8% to \$8.2 million from \$6.2 million last year. The increase is due to continued expansion in the United Kingdom and normal operational increases in other facility-related expenses in Canada. Due to the nature of this segment's business, the six month operating results are not indicative of expected results for the entire fiscal year.

MORTGAGE OPERATIONS

Revenues increased 90.2% to \$105.6 million from \$55.5 million in the same period last year. The increase is essentially attributable to Option One, which was acquired on June 17, 1997. Option One contributed revenues of \$87.9 million for the six months compared to \$46.8 million for the four-and-a-half month period last year. Option One originated and sold \$1.6 billion and \$1.2 billion in loans, respectively, during the first six months of fiscal 1999. Companion Mortgage also contributed improved revenues due to interest income earned on higher balances of mortgage loans held for sale.

Pretax earnings increased 101.5% to \$24.3 million from \$12.1 million in the prior year. The increase is primarily due to Option One, which contributed earnings of \$24.2 million compared to earnings of \$12.9 million last year and increased earnings from Companion Mortgage. Earnings were reduced by losses from the Company's other mortgage entities.

CREDIT CARD OPERATIONS

Revenues decreased 13.6% to \$16.3 million from \$18.9 million in the prior year due to a decline in the average revolving credit card balance over the prior year's six month period.

The pretax loss declined 74.2% to \$2.0 million from \$7.7 million last year. The decrease is attributable to lower marketing and advertising expenses, as well as the one-time write-off of capitalized salaries taken in the prior year and the sale of WebBank.

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BUSINESS SERVICES

Business services is a new reportable operating segment for fiscal year 1999. Business services contributed revenues of \$2.9 million and a pretax loss of \$249 thousand for the six months ended October 31, 1998, including goodwill amortization of \$161 thousand. Due to the nature of this segment's business, revenues are slightly seasonal, while expenses are relatively fixed throughout the year. Results for the six months are not indicative of the expected results for the entire year.

INVESTMENT INCOME, NET

Net investment income increased 180.8% to \$23.5 million from \$8.4 million last year. The increase is due to additional funds available for investment resulting from the proceeds of the monetization of WorldCom, Inc. stock during fiscal 1998.

UNALLOCATED CORPORATE AND ADMINISTRATIVE

The unallocated corporate and administrative pretax loss for the six months increased 61.7% to \$4.4 million from \$2.7 million in the comparable period last year. The increase is a result of higher losses incurred by the Company's captive insurance subsidiary and the start-up of a business that offers financial planning services through the Company's tax offices.

Acquisition interest expense of \$8.9 million represents the interest on the debt associated with the acquisition of Option One, which was acquired on June 17, 1997.

OTHER ISSUES

YEAR 2000 READINESS DISCLOSURE

The Company has established a program to identify, evaluate and mitigate potential Year 2000 related issues. As part of its program, the Company has identified three key categories of software and systems, including information technology (IT) systems, non-IT systems (systems with internal clocks or imbedded microprocessors) and systems of third parties with which it interacts, for which the Company has developed detailed plans to address the Year 2000 issue.

The Company has identified 9 mission critical business functions (i.e. U.S. tax preparation services, wholesale loan services, etc.) and 28 non-mission critical business functions (i.e. TaxCut software, Australian tax operations, etc.). Within each of the business functions key IT and non-IT systems have been inventoried and assessed for compliance and detailed plans are in place for required system modifications or replacements. Currently remediation projects are at different phases of completion. One hundred and thirty-three remediation projects, including both IT and non-IT systems, were identified within the 9 mission critical business functions. Of these projects, 11 are complete and successfully tested, 95 are in the testing phase and 27 are still in progress. Of the projects in the testing phase, 91% are scheduled to be completed by January 31, 1999. The remaining projects in testing can not be fully completed and in production until after the 1998 tax season due to the nature of our business.

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The Company has initiated communications and surveyed state, Federal and foreign governments and suppliers with which it interacts to determine their plans for addressing Year 2000 issues. The Company is relying on their responses to determine if key suppliers will be Year 2000 compliant. One of the Company's key third parties is the Internal Revenue Service (IRS). In a report from the Government Accounting Office, dated May 7, 1998, some risks were identified in relation to the IRS's readiness and contingency plans for Year 2000 issues. The IRS is scheduled to be Year 2000 compliant by January 31, 1999. The Company is also in the process of completing a survey and inventory of tax franchisees. Some readiness issues have been identified and the Company is assisting its franchisees with their remediation programs to help mitigate their risk. Assurances from franchisees of Year 2000 readiness are scheduled to be obtained after the end of the upcoming tax season. The Company will continue to monitor its third party relationships for Year 2000 issues.

Costs associated with the Year 2000 issue are being expensed as incurred. Total costs are currently estimated at \$3.0 million, with approximately \$1.0 million incurred to date. The costs associated with the replacement of computer systems, hardware or equipment (currently estimated to be \$12.5 million in total, with \$8.6 million incurred to date), substantially all of which would be capitalized, are not included in the above estimates. All costs related to the Year 2000 issue are being funded through internally-generated funds.

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

The Company is currently identifying and developing contingency plans for Year 2000 related interruptions in the event that internal and/or external remediation projects are not completed on a timely basis or that they fail to

meet anticipated needs. The contingency plans are scheduled to be completed by June 1999.

The Company's Year 2000 program is an ongoing process and the estimates of costs, risks and completion dates are based on currently available information and are subject to change.

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

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QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As of October 31, 1998, there has been a change in the Company's market risk exposure related to interest rates on investments in fixed-rate mortgage loans held for resale or securitization. As previously reported in the Company's Annual Report on Form 10-K for April 30, 1998, the Company hedged its fixed-rate mortgage portfolio by selling short treasury securities and utilizing forward commitments. This is still the Company's policy, however, due to market conditions it became apparent that the performance of selling short treasury securities was not correlating with the value of fixed-rate mortgages in the whole loan market. Therefore, at October 31, 1998 the Company has no outstanding hedges to minimize market risk on the fixed-rate mortgage loan portfolio. The Company is evaluating other alternatives to minimize market risk. At October 31, 1998, the fixed-rate portfolio represents 19.5% of all mortgage loans held for sale and 8.0% of total assets. Mortgage loans held for sale are recorded at the lower of cost or market value. If it is determined that the market value drops below cost, a valuation allowance would be set up and the loss would be recognized in the current period. No valuation allowance has been recorded at October 31, 1998.

The Company estimates that an increase in interest rates on fixed-rate mortgages of 50 basis points would result in a decline in value of approximately \$5.3 million, which would be recorded as a loss in the consolidated income statement to the extent that the market value dropped below cost. Such impact would represent approximately 21.6% of the pretax earnings from Mortgage operations and 5.5% of the Company's consolidated pretax loss for the six months ended October 31, 1998, assuming the entire decline was recognized as a lower of cost or market adjustment.

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PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

The lawsuits discussed herein were reported in the Form 10-Q for the first quarter of fiscal 1999. CompuServe, certain current and former officers and directors of CompuServe and the registrant have been named as defendants in six lawsuits pending before the state and Federal courts in Columbus, Ohio. All suits involve claims based on allegations of omissions and misstatements of fact in connection with CompuServe's initial public offering in April 1996. Relief sought in the lawsuits is unspecified, but includes pleas for rescission and damages. The Federal suits were consolidated, the defendants filed a motion to dismiss the consolidated

suits, the district court stayed all proceedings pending the outcome of the state court suits, and the United States Court of Appeals for the Sixth Circuit affirmed such stay on November 10, 1998. The state lawsuits were consolidated for discovery purposes and defendants filed a motion for summary judgment covering all four state lawsuits. In the state lawsuits, the court entered an order in July 1998 that the suits entitled Harvey Greenfield v. CompuServe Corporation, et al., Jeffrey Schnipper v. CompuServe Corporation, and Philip Silverglate v. CompuServe Corporation, et al. be maintained as a class action on behalf of the following class:

"All persons and entities who purchased shares of common stock of CompuServe Corporation between April 18, 1996 pursuant to the CompuServe's initial public offering or on the open market and July 16, 1996, and who were damaged thereby. All named defendants to these consolidated actions, members of their immediate families, any entity in which they have a controlling interest, and their legal representatives, heirs, successors or assigns are excluded from the class."

Plaintiffs Greenfield, Schnipper and Silverglate were designated as class representatives. The Florida State Board of Administration v. CompuServe Corporation, et al. case pending in state court was not included in the class certification order as the plaintiff in such case did not seek class certification of its action. The defendants continue to vigorously defend these lawsuits.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

The registrant's Amended and Restated Bylaws ("Bylaws") were amended on October 14, 1998, to require that all shareholders who wish to present proposals for business at the annual meeting of shareholders give the Company notice of such proposals at least 45 days before the date on which the registrant first mailed its proxy materials for the prior year's annual meeting of shareholders, thereby allowing the registrant to have discretionary authority for proposals received after that date. Previously, the Bylaws had provided in Section 4(b) thereof that, to be timely, such notice of proposals must have been delivered to or mailed and received by the registrant not less than 50 nor more than 75 days prior to the annual meeting, provided, however, that if fewer than 65 days' notice or prior public disclosure of the date of the meeting had been given or made to shareholders, notice by the shareholder to be timely must have been received by the registrant not later than the close of business on the 15th day following the day

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on which notice of the date of the annual meeting was mailed or public disclosure was made. Section 4(b), as amended on October 14, 1998, now reads:

"(b) Business Conducted. At an annual meeting of shareholders, only such business shall be conducted as shall have been properly brought before the meeting. To be properly brought before an annual meeting, business must be specified in the notice of meeting (or any supplement thereto) given by or at the direction of the board, otherwise properly brought before the meeting by or at the direction of the board, or otherwise properly brought before the meeting by a shareholder. In addition to any other applicable requirements, for business to be properly brought before an annual meeting by a shareholder, the shareholder must have given timely notice thereof in writing to the secretary. To be timely, such notice must be delivered to or mailed and received at the principal executive offices of the corporation at least 45 days before the date in the year of the annual meeting corresponding to the date on which the corporation first mailed its proxy materials for the prior year's annual meeting of shareholders. A shareholder's notice to the secretary shall set forth as to each matter the shareholder proposes to bring before the annual meeting (i) a brief description of the business desired to be brought before the annual meeting and the reasons for conducting such business at the annual meeting, (ii) the name and record address of the shareholder proposing such business, (iii) the class and number of shares of the corporation that are beneficially owned by the

shareholder, and (iv) any material interest of the shareholder in such business.

Notwithstanding anything in the bylaws to the contrary, no business shall be conducted at the annual meeting except in accordance with the procedures set forth in this section 4(b); provided, however, that nothing in this section 4(b) shall be deemed to preclude discussion by any shareholder of any business properly brought before the annual meeting in accordance with said procedure.

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

As a result of the amendment to the Bylaws, for business to be timely and properly brought before the annual meeting scheduled to be held on Wednesday, September 8, 1999, notice of proposals which are proper subjects for consideration thereat must be delivered to or mailed and received by the Secretary of the registrant at H&R Block, Inc., 4400 Main Street, Kansas City, Missouri 64111 not later than the close of business on June 15, 1999, the 45th day prior to July 30 (the date on which proxy materials were first mailed to shareholders in connection with the annual meeting of shareholders in 1998). As stated in the proxy statement dated July 30, 1998, shareholder proposals must be received by the Secretary of the registrant no later than April 1, 1999, in order to be included in the proxy statement and form of proxy relating to the annual meeting of shareholders in 1999.

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

The annual meeting of shareholders of the registrant was held on September 9, 1998. At such meeting, four Class III directors were elected to serve three-year terms. In addition, the resolutions set forth below were submitted to a vote of shareholders. With respect to the election of directors and the adoption of each resolution, the number of votes cast for, against or withheld, and the number of abstentions were as follows:

Election of Class III Directors

Nominee	Votes FOR	Votes WITHHELD
Donna R. Ecton	78,906,626	9,034,630
Marvin L. Rich	78,857,422	9,083,834
Louis W. Smith	78,888,502	9,052,754
Morton I. Sosland	78,796,354	9,144,902

Approval of Amendments to the Registrant's 1989 Stock Option Plan for Outside Directors

The following resolution was adopted by a vote of 82,026,187 shares in favor of such resolution, 5,255,764 shares against such resolution and 659,305 shares abstaining. The resolution states:

"RESOLVED, That this Company's 1989 Stock Option Plan for Outside Directors, as previously amended, be further amended as follows:

(1) By changing the date set forth in Section 21 thereof from 'December 5, 1999,' to 'December 5, 2001,' thereby extending the Plan for two years; and

(2) By changing the number of shares set forth in Section 6 thereof from '2,000' to '3,000,' thereby increasing the aggregate number of shares of Common Stock to be granted on each date specified in such Section 6 to each Outside Director of the Company serving as such on the date of grant."

Appointment of Auditors

The following resolution was adopted by a vote of 87,608,251 shares in favor of such resolution, 128,888 shares against such resolution and 204,117 shares abstaining:

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"RESOLVED, That the appointment of PricewaterhouseCoopers LLP as the independent auditors for H&R Block, Inc., and its subsidiaries for the year ending April 30, 1999, is hereby ratified, approved and confirmed."

At the close of business on July 10, 1998, the record date for the annual meeting of shareholders, there were 104,732,851 shares of Common Stock of the registrant outstanding and entitled to vote at the meeting. There were 87,941,256 shares represented at the annual meeting of shareholders held on September 9, 1998.

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

a) Exhibits

- 3.1 Amended and Restated Bylaws of the registrant, as amended October 14, 1998.
- 10.1 1989 Stock Option Plan for Outside Directors, as amended.
- 10.2 Amendment No. 11 to the H&R Block Deferred Compensation Plan for Executives.
- 10.3 Amendment No. 7 to the H&R Block Supplemental Deferred Compensation Plan for Executives.
- 27 Financial Data Schedule

b) Reports on Form 8-K

The registrant did not file any reports on Form 8-K during the second quarter of fiscal 1999.

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SIGNATURES

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

H&R BLOCK, INC.

(Registrant)

DATE 12/15/98

BY /s/ Ozzie Wenich

Ozzie Wenich
Senior Vice President and
Chief Financial Officer

DATE 12/15/98

BY /s/ Cheryl L. Givens

Cheryl L.Givens
Vice President and Corporate Controller

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

(As amended through October 14, 1998)

OFFICES

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

SEAL

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

SHAREHOLDERS' MEETINGS

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

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

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

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

Notwithstanding anything in the bylaws to the contrary, no business shall be conducted at the annual meeting except in accordance with the procedures set forth in this section 4(b); provided, however, that nothing in this section 4(b) shall be deemed to preclude discussion by any shareholder of any business properly brought before the annual meeting in accordance with said procedure.

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

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

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

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

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

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

10. PROXIES. At any meeting of the shareholders, every shareholder having the right to vote shall be entitled to vote in person or by proxy appointed by an instrument in writing subscribed by such shareholder and bearing a date not more than eleven months prior to said meeting unless said instrument

provides that it shall be valid for a longer period.

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

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

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

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

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person or by proxy, at such election. Failure to comply with the foregoing shall not affect the validity of any action taken at any such meeting.

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

DIRECTORS

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

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

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

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

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

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

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

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

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

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

20. NOMINATIONS FOR ELECTION AS DIRECTORS. Only persons who are nominated in accordance with the following procedures shall be eligible for

election as

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

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

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

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

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

23. INDEMNIFICATION OF DIRECTORS AND OFFICERS. The corporation may indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, other than an action by or in the right of the corporation, by

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reason of the fact that he is or was a director or officer of the corporation, or is or was serving at the request of the corporation, as a director or officer of another corporation, partnership, joint venture, trust or other enterprise, against expenses, including attorneys' fees, judgments, fines and amounts paid in settlement actually and reasonably incurred by him in connection with such action, suit or proceeding if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the corporation, and, with respect to any criminal action or proceeding, had no

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

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

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

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

Expenses incurred in defending a civil or criminal action, suit or proceeding may be paid by the corporation in advance of the final disposition of the action, suit or proceeding as authorized by the board of directors in the specific case upon receipt of an undertaking by or on behalf of the director or officer to repay such amount unless it shall ultimately be

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determined that he is entitled to be indemnified by the corporation as authorized in this section 23.

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

The corporation shall have the power to give any further indemnity, in addition to the indemnity authorized or contemplated under other subsections of this section 23, to any person who is or was a director or officer or to any person who is or was serving at the request of the corporation as a director or officer of another corporation, partnership, joint venture, trust or other enterprise, provided such further indemnity is either (i) authorized, directed or provided for in the Articles of Incorporation of the corporation or any duly adopted amendment thereof or (ii) authorized, directed or provided for in any

bylaw or agreement of the corporation which has been adopted by a vote of the shareholders of the corporation, and provided further that no such indemnity shall indemnify any person from or on account of such person's conduct which was finally adjudged to have been knowingly fraudulent, deliberately dishonest or willful misconduct. Upon adoption of this bylaw by the shareholders of the corporation, the corporation may enter into indemnification agreements with each director who is in office on the date of such adoption and, by vote of or resolution adopted by a majority of a quorum of disinterested directors, with each director who is thereafter elected a director of the corporation. The corporation may enter into indemnification agreements with each officer of the corporation whom the board of directors, by vote of a majority of a quorum of disinterested directors, authorizes or may, by resolution adopted by a vote of a majority of a quorum of disinterested directors, authorize indemnification of any officer to the same extent as provided in such indemnification agreement, subject to the same exception as provided therein and such additional exception as may be set forth in such resolution. Such indemnification agreements shall be substantially in the form attached as Annex I to the bylaws.

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

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

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

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

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

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

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

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

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

OFFICERS

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

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

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

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

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

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

agents shall hold their respective positions at the pleasure of the board or for such terms as the board may specify, and they shall exercise such powers and perform such duties as shall be determined from

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time to time by the board, or by an elected officer empowered by the board to make such determinations.

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

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

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

31. THE CHAIRMAN OF THE BOARD, THE VICE CHAIRMAN OF THE BOARD AND THE PRESIDENT. The chairman of the board or the president shall be elected by the board of directors to be the chief executive officer of the corporation and the chief executive officer shall have general and active management of the business of the corporation and shall carry into effect all directions and resolutions of the board. The chairman of the board, the vice chairman of the board and the president shall be vested with such powers, duties, and authority as the board of directors may from time to time determine and as may be set forth in these bylaws. Except as otherwise provided for in these bylaws, the chairman of the board, or in his absence the president, shall preside at all meetings of the shareholders of the corporation and at all meetings of the board of directors.

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

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

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

The chief executive officer shall, unless the board otherwise provides, be an ex officio member of all standing board committees.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

SHARES OF STOCK

36. CERTIFICATES OF STOCK. The certificates for shares of stock of the corporation shall be numbered, shall be in such form as may be prescribed by the board of directors in conformity with law, and shall be entered into the stock books of the corporation as they are issued, and such entries shall show the name and address of the person, firm, partnership, corporation or association to whom each certificate is issued. Each certificate shall have printed, typed or written thereon the name of the person, firm, partnership, corporation or association to whom it is issued, and number of shares represented thereby and shall be signed by the president or a vice president, and the treasurer or an assistant treasurer or the secretary or an assistant secretary of the corporation, and sealed with the seal of the corporation, which seal may be facsimile, engraved or printed. If the corporation has a registrar, a transfer agent, or a transfer clerk who actually signs such certificates, the signatures of any of the other officers above mentioned may be facsimile, engraved or printed. In case any such officer who has signed or whose facsimile signature has been

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placed upon any such certificate shall have ceased to be such officer before such certificate is issued, such certificate may nevertheless be issued by the corporation with the same effect as if such officer were an officer at the date of its issue.

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

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

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

transaction or to participate in any such transactions notwithstanding any transfer of any share on the books of the corporation after the date of closing the transfer books or such record date so fixed.

GENERAL

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

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

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

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

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

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

44. FISCAL YEAR. The board of directors may fix and from time to time change the fiscal year of the corporation. In the absence of action by the board of directors, the fiscal year shall end each year on the same date which the officers of the corporation elect for the close of its first fiscal period.

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

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

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

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

ANNEX I

INDEMNIFICATION AGREEMENT

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

WITNESSETH THAT:

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

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

WHEREAS, the bylaws of the Company and the State Statute specifically provide that they are not exclusive, and thereby contemplate that contracts may be entered into between

the Company and the members of its Board of Directors with respect to indemnification of such directors; and

WHEREAS, in accordance with the authorization provided by Subsection 7 of the State Statute, the Company has purchased and presently maintains a policy or policies of Directors or Officers Liability Insurance ("D & O Insurance"), covering certain liabilities that may be incurred by its directors and officers in the performance of their services for the Company; and

WHEREAS, recent developments with respect to the terms and availability of D & O Insurance and with respect to the application, amendment and enforcement of statutory and bylaw indemnification provisions generally have

raised questions concerning the adequacy and reliability of the protection afforded to directors thereby; and

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

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

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

(a) To hold harmless and indemnify the Director against any and all expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by the Director in connection with any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (including an action by or in the right of the Company or any action accruing prior to the execution of the Agreement) to which the Director is, was or at any time becomes a party, or is threatened to be made a party, by reason of the fact that the Director is, was or at any time becomes a director, officer, employee or agent of the Company, or is or was serving or at any time serves at the request of the Company as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise; and

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

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

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

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

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

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

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

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

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

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

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

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

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

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

5. NOTIFICATION AND DEFENSE OF CLAIM. Promptly after receipt by the Director of notice of the commencement of any action, suit or proceeding, the Director will, if a claim in respect thereof is to be made against the Company under this Agreement, notify the Company of the commencement thereof; the failure to promptly notify the Company will not relieve the Company from any liability that it may have to the Director hereunder, except to the extent the Company is prejudiced in its defense of such claim as a result of such failure. Unless otherwise requested by the Board, written notification shall not be necessary if the Director informs a majority of the Board of the commencement of any such action, or, independent of such notification by the Director, a majority of the Board has reason to believe such action has been initiated or threatened. With respect to any such action, suit or proceeding as to which the Director notifies (or is deemed to have notified) the Company of the commencement thereof:

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

(b) Except as otherwise provided below, to the extent that it may wish, the Company, jointly with any other indemnifying party similarly notified, will be entitled to assume the defense thereof with counsel reasonably

satisfactory to the Director. Subject to the provision below, after notice from the Company to the Director of its election so to assume the defense thereof, the Company will not be liable to the Director under this Agreement for any legal or other expenses subsequently incurred by the Director in connection with the defense thereof other than reasonable costs of investigation or as otherwise provided below. The Director shall have the right to employ his or her own counsel in such action, suit or proceeding, but the fees and expenses of such counsel incurred after notice from the Company of its assumption of the defense thereof shall be at the expense of the Director unless (i) the employment of counsel by the Director has been authorized by the Company, (ii) the Director reasonably concludes that there may be a conflict of interest between the Company

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and the Director in the conduct of the defense of such action and that such conflict may lead to exposure for the director not otherwise indemnifiable under the provisions of this Agreement and notifies the Company of such conclusion and decision to employ separate counsel, or (iii) the Company fails to employ counsel to assume the defense of such action, in each case the fees and expenses of counsel shall be at the expense of the Company. The Company shall not be entitled to assume the defense of any action, suit or proceeding brought by or on behalf of the Company or as to which the Director reasonably makes the conclusion provided for in (ii) above; and

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

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

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

(b) In the event the Director is required to bring any action to enforce rights or to collect monies due under this Agreement and is successful in such action, the Company shall reimburse the Director for all of the Director's reasonable fees and expenses (including attorney's fees) in bringing and pursuing such action.

8. SEPARABILITY. Each of the provisions of this Agreement is a separate and distinct agreement and independent of the others, so that if any provision hereof shall be held to be invalid or unenforceable for any reason, such invalidity of unenforceability shall not affect the validity or enforceability of the other provisions hereof.

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

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

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

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IN WITNESS WHEREOF, the parties hereto have executed this Agreement on

and as of the day and year first above written.

H & R BLOCK, INC.

By _____

By _____
_____, the Director

H&R BLOCK, INC.

1989 STOCK OPTION PLAN FOR OUTSIDE DIRECTORS

(AS AMENDED)

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

2. DEFINITIONS.

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

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

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

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

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

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

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

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

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

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

the members present at any meeting at which a quorum is present, or acts approved in writing by all members of the Committee, shall be valid acts of the Committee. All references herein to the Committee shall be deemed to mean any successor to the Committee, however designated, or the Board of Directors of the Company if the Board has not approved a Committee.

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

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

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

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

6. PRESCRIBED STOCK OPTIONS FOR OUTSIDE DIRECTORS OF THE COMPANY. During the continuance of the Plan, a Stock Option to purchase an aggregate of 3,000 shares of Common Stock shall be granted on each date of grant specified in this Section 6 to each Outside Director of the Company serving as such on such date of grant. Stock Options specified in this Section 6 shall be granted on September 11, 1991, and on June 30 of each year thereafter in which the Plan is in effect. The stock option price of each share of Common Stock subject to a Stock Option granted pursuant to this Section 6 shall be determined in accordance with Section 9 hereof. Outside Directors of the Company shall not be granted Stock Options pursuant to the Plan other than as specified in this Section 6, provided that no Stock Options granted pursuant to this Plan prior to September 11, 1991, shall be invalidated or otherwise affected by the provisions of this Section 6. This Section 6 shall not apply to Outside Directors of Subsidiaries of the Company who are not also Outside Directors of the Company on the date of grant.

7. STOCK SUBJECT TO THE PLAN. The total number of shares of Common Stock issuable under this Plan may not at any time exceed 150,000 shares, subject to adjustment as provided in Sections 14 and 15 hereof. Shares of Common Stock not actually issued pursuant to Stock Options shall be available for future Stock Options. Shares of Common Stock to be delivered or purchased under the Plan may be either authorized but unissued Common Stock or treasury shares.

8. VESTING REQUIREMENTS. The Committee may determine that all or a portion of a Stock Option shall be vested at such times and upon such terms as may be selected by it. All Stock Options shall expire as to all of their unexercised shares ten years after the date of their grant.

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

10. PAYMENT OF STOCK OPTION PRICE. Payment for exercise of any Stock Option granted hereunder shall be made (a) in cash, or (b) by delivery of Common Stock having a market value equal to the aggregate option price, or (c) by a combination of payment of cash and delivery of Common Stock in amounts such that the amount of cash plus the market value of the Common Stock equals the aggregate option price.

11. CONTINUATION AS DIRECTOR. The Committee shall require that a Recipient be an Outside Director at the time a Stock Option is granted and may require that a Recipient be an Outside Director at the time a Stock Option is exercised. The Committee may provide for the termination of an outstanding Stock Option if a Recipient ceases to be an Outside Director and may establish such other provisions with respect to the termination or disposition of a Stock Option on the death or retirement of a Recipient as it, in its sole discretion, deems advisable. The Committee shall have the sole power to determine the date of any circumstances which shall constitute cessation as a Director and to determine whether such cessation is the result of retirement, death or any other reason.

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12. REGISTRATION OF STOCK. No Stock Option may be exercised at any time when its exercise or the delivery of shares of Common Stock or other securities thereunder would, in the opinion of counsel for the Company, be in violation of any state or federal law, rule or ordinance, including any state or federal securities laws or any regulation or ruling of the Securities and Exchange Commission. If at any time counsel for the Company shall determine that qualification or registration under any state or federal law of the shares of Common Stock or other securities thereby covered, or the consent or approval of any governmental regulatory body, is necessary or desirable as a condition of or in connection with the exercise of such Stock Option or the purchase of shares thereunder, the Stock Option may not be paid or exercised in whole or in part unless and until such qualification, registration, consent or approval shall have been effected or obtained free of any conditions such counsel deems unacceptable.

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

14. DILUTION OR OTHER ADJUSTMENTS. In the event of any change in the capital structure of the Company, including but not limited to a change resulting from a stock dividend or split-up, or combination or reclassification of shares, the Board of Directors of the Company shall make such equitable adjustments with respect to the Stock Options or any provisions of this Plan as it deems necessary or appropriate, including, if necessary, any adjustment in the maximum number of shares of Common Stock subject to an outstanding Stock Option.

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

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

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

17. STOCK OPTION AGREEMENTS. The Committee shall have the power to specify the form of Stock Option Agreements to be granted from time to time pursuant to and in accordance with the provisions of the Plan and such agreements shall be final, conclusive and binding upon the Company, the shareholders of the Company and the Recipients. No Recipient shall have or acquire any rights under the Plan except such as are evidenced by a duly executed agreement in the form thus specified.

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

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

20. AMENDMENT AND DISCONTINUANCE. The Board of Directors of the Company shall have the right at any time during the continuance of the Plan to amend, modify, supplement, suspend or terminate the Plan, provided that (a) no amendment, supplement, modification, suspension or termination of the Plan shall in any manner affect any Stock Option of any kind theretofore granted under the Plan without the consent of the Recipient of the Stock Option, unless such amendment, supplement, modification, suspension or termination is by reason of any change in capital structure referred to in Section 14 hereof or unless the same is by reason of the matters referred to in Section 15 hereof; (b) Sections 6 and 9 herein shall not be amended or modified more than once in any six-month period, other than to comport with changes in the Internal Revenue Code of 1986, as amended, or the rules thereunder and (c) if the Plan is duly approved by the shareholders of the Company, no amendment, modification or supplement to the Plan shall thereafter, in the absence of the approval of the holders of a majority of the shares of Common Stock of the Company present in person or by proxy at a duly constituted meeting of shareholders of the Company, (i) increase the aggregate number of shares which may be issued under the Plan, unless such increase is by reason of any change in capital structure referred to in Section 14 hereof, (ii) change the termination date of the Plan provided in Section 21 hereof, or (iii) delete or amend the provisions of Section 9 hereof relating to the establishment of the stock option price.

21. TERMINATION. Stock Options may be granted in accordance with the terms of the Plan until December 5, 2001, on which date this Plan will terminate except as to Stock Options then outstanding hereunder, which Stock Options shall remain in effect until they have expired according to their terms.

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

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AMENDMENT NO. 11
TO THE
H&R BLOCK DEFERRED COMPENSATION PLAN
FOR EXECUTIVES

H&R BLOCK, INC. (the "Company") adopted the H&R Block Deferred Compensation Plan for Executives (the "Plan") effective as of August 1, 1987. The Company amended said Plan by Amendment No. 1 effective December 15, 1990; by Amendment No. 2 effective January 1, 1990; by Amendment No. 3 effective September 1, 1991; by Amendment No. 4 effective January 1, 1994; by Amendment No. 5 effective May 1, 1994; by Amendment No. 6 effective August 1, 1995; by Amendment No. 7 effective December 11, 1996; by Amendment No. 8 effective January 1, 1998; by Amendment No. 9 effective as of January 1, 1997; and by Amendment No. 10 effective in part March 1, 1998 and in part April 1, 1998. The Company continues to retain the right to amend the Plan pursuant to action by the Company's Board of Directors. The Company hereby exercises that right. This Amendment No. 11 is effective as of May 15, 1998.

AMENDMENT

1. The following new Section 2.1.1b is added after Section 2.1.1a of the Plan:

2.1.1b "Accounting Firm" means an accounting firm in which the Company has no direct or indirect ownership interest but with which a subsidiary of HRB Business Services, Inc. has a contractual relationship in respect of one or more employees who are employees of both such accounting firm and such subsidiary.

2. Section 2.1.4 of the Plan, as previously amended, is further amended by adding the following sentence at the end thereof:

In the case of a Participant who is an employee of both a subsidiary of HRB Business Services, Inc. and an Accounting Firm, the calculation of the amount of the Annual Deferral Amount that the Participant is permitted to elect shall be made by taking into account the amount of salary and bonus paid to such Participant by the Accounting Firm, but the actual deferral under the Plan shall only be made out of the Base Salary and/or Bonus or Bonuses paid by all Affiliates.

3. Section 2.1.22 of the Plan, as previously amended, is further amended by replacing such section with the following new Section 2.1.22 :

2.1.22 "Participating Affiliate" or "Participating Affiliates" means the Company and the following indirect subsidiaries of the Company: HRB Management, Inc., H&R Block Tax Services, Inc., Block Financial Corporation, Option One Mortgage Corporation, HRB Business Services, Inc. and the U.S. subsidiaries of such indirect subsidiaries; and such other entities as may be designated as such by the Company from time to time.

2

4. Section 2.1.23 of the Plan, as previously amended, is further amended by adding the following sentence after the third sentence thereof:

In the case of a Participant who is an employee of both a subsidiary of HRB Business Services, Inc. and an Accounting Firm, the calculation of the amount of the Permissible Deferral shall be made by taking into account the amount of salary and bonus paid to such Participant by the Accounting Firm, but the actual deferral under the Plan shall only be made out of Base Salary and/or Bonus or Bonuses paid by all Affiliates.

5. Except as modified in this Amendment No. 11, the Plan, as previously amended, shall remain in full force and effect, including the Company's right to amend or terminate the Plan as set forth in Article 9 of the Plan.

H&R BLOCK, INC.

By _____

Its _____

AMENDMENT NO. 7
TO THE
H&R BLOCK SUPPLEMENTAL
DEFERRED COMPENSATION PLAN
FOR EXECUTIVES

H&R BLOCK, INC. (the "Company") adopted the H&R Block Supplemental Deferred Compensation Plan for Executives (the "Plan") effective as of May 1, 1994. The Company amended said Plan by Amendment No. 1 effective September 7, 1994; by Amendment No. 2 effective August 1, 1995; by Amendment No. 3 effective December 11, 1996; by Amendment No. 4 effective January 1, 1998; by Amendment No. 5 effective May 1, 1997; and by Amendment No. 6 effective in part March 1, 1998 and in part April 1, 1998. The Company continues to retain the right to amend the Plan pursuant to action by the Company's Board of Directors. The Company hereby exercises that right. This Amendment No. 7 is effective as of May 15, 1998.

AMENDMENT

1. The following new Section 2.1.1b is added after Section 2.1.1a of the Plan:

2.1.1b "Accounting Firm" means an accounting firm in which the Company has no direct or indirect ownership interest but with which a subsidiary of HRB Business Services, Inc. has a contractual relationship in respect of one or more employees who are employees of both such accounting firm and such subsidiary.

2. Section 2.1.4 of the Plan, as previously amended, is further amended by adding the following sentence at the end thereof:

In the case of a Participant who is an employee of both a subsidiary of HRB Business Services, Inc. and an Accounting Firm, the calculation of the amount of the Annual Deferral Amount that the Participant is permitted to elect shall be made by taking into account the amount of salary and bonus paid to such Participant by the Accounting Firm, but the actual deferral under the Plan shall only be made out of the Base Salary and/or Bonus or Bonuses paid by all Affiliates.

3. Section 2.1.24 of the Plan, as previously amended, is further amended by replacing such section with the following new Section 2.1.24 :

2.1.24 "Participating Affiliate" or "Participating Affiliates" means the Company and the following indirect subsidiaries of the Company: HRB Management, Inc., H&R Block Tax Services, Inc., Block Financial Corporation, Option One Mortgage Corporation, HRB Business Services, Inc. and the U.S. subsidiaries of such indirect subsidiaries; and such other entities as may be designated as such by the Company from time to time.

2

4. Section 2.1.25 of the Plan is amended by adding the following sentence after the third sentence thereof:

In the case of a Participant who is an employee of both a subsidiary of HRB Business Services, Inc. and an Accounting Firm, the calculation of the amount of the Permissible Deferral shall be made by taking into account the amount of salary and bonus paid to such Participant by the Accounting Firm, but the actual deferral under the Plan shall only be made out of Base Salary and/or Bonus or Bonuses paid by all Affiliates.

5. Except as modified in this Amendment No. 7, the Plan, as previously amended, shall remain in full force and effect, including the Company's right to amend or terminate the Plan as set forth in Article 9 of the Plan.

H&R BLOCK, INC.

By _____

Its _____

<ARTICLE> 5

<LEGEND>

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

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