

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934  
FOR THE QUARTERLY PERIOD ENDED JULY 31, 1997
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934  
FOR THE TRANSITION PERIOD FROM \_\_\_\_\_ TO \_\_\_\_\_

COMMISSION FILE NUMBER 1-6089

H&R BLOCK, INC.  
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

MISSOURI  
(STATE OR OTHER JURISDICTION OF  
INCORPORATION OR ORGANIZATION)

44-0607856  
(I.R.S. EMPLOYER  
IDENTIFICATION NO.)

4400 MAIN STREET  
KANSAS CITY, MISSOURI 64111  
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES, INCLUDING ZIP CODE)

(816) 753-6900  
(REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No   
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The number of shares outstanding of the registrant's Common Stock, without par value, at September 1, 1997 was 104,178,653 shares.

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

	JULY 31, 1997	APRIL 30, 1997
	-----	-----
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 303,920	\$ 457,079
Marketable securities	20,269	61,755
Receivables, less allowance for doubtful accounts of \$32,198 and \$30,144	518,739	407,441
Prepaid expenses and other current assets	84,299	27,681
Net assets of discontinued operations	517,928	522,144
	-----	-----
TOTAL CURRENT ASSETS	1,445,155	1,476,100
INVESTMENTS AND OTHER ASSETS		
Investments in marketable securities	35,582	20,273
Excess of cost over fair value of net tangible assets acquired, net of amortization	260,991	74,794
Other	68,552	56,474
	-----	-----
	365,125	151,541
PROPERTY AND EQUIPMENT, at cost less accumulated depreciation and amortization	66,082	65,065
	-----	-----
	\$1,876,362	\$1,692,706
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Notes payable	\$ 657,209	\$ 269,619
Accounts payable, accrued expenses and deposits	152,103	164,872
Accrued salaries, wages and payroll taxes	10,662	105,326
Accrued taxes on earnings	74,640	114,840
	-----	-----
TOTAL CURRENT LIABILITIES	894,614	654,657
OTHER NONCURRENT LIABILITIES	40,098	38,952

STOCKHOLDERS' EQUITY		
Common stock, no par, stated value \$.01 per share	1,089	1,089
Convertible preferred stock, no par, stated value \$.01 per share	4	4
Additional paid-in capital	501,528	502,308
Retained earnings	625,479	684,071
	-----	-----
	1,128,100	1,187,472
Less cost of 4,855,276 and 4,905,421 shares of common stock in treasury	186,450	188,375
	-----	-----
	941,650	999,097
	-----	-----
	\$1,876,362	\$1,692,706
	=====	=====

See Notes to Consolidated Financial Statements

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

	THREE MONTHS ENDED	
	JULY 31,	
	1997	1996
	-----	-----
REVENUES		
Service revenues	\$ 35,767	\$ 19,144
Royalties	1,017	931
Other income	7,183	540
	-----	-----
	43,967	20,615
OPERATING EXPENSES		
Employee compensation and benefits	30,193	21,555
Occupancy and equipment	35,600	29,998
Marketing and advertising	3,299	1,601
Supplies, freight and postage	2,117	1,930
Other	33,457	15,361
	-----	-----
	104,666	70,445
Operating loss	(60,699)	(49,830)
OTHER INCOME		
Investment income, net	5,190	3,944
	-----	-----
Loss from continuing operations before income tax benefit	(55,509)	(45,886)
Income tax benefit	(20,648)	(17,391)
	-----	-----
Net loss from continuing operations	(34,861)	(28,495)
Net loss from discontinued operations (less applicable taxes of \$1,488 and \$14,788)	(3,274)	(23,731)
	-----	-----
Net loss	\$ (38,135)	\$ (52,226)
	=====	=====

Weighted average number of common shares outstanding	104,102	103,823
	=====	=====
Net loss per share from continuing operations	\$ (.33)	\$ (.27)
	=====	=====
Net loss per share	\$ (.37)	\$ (.50)
	=====	=====
Dividends per share	\$ .20	\$ .32
	=====	=====

Notes to Consolidated Financial Statements

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

	THREE MONTHS ENDED	
	JULY 31,	
	1997	1996
	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (38,135)	\$ (52,226)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	8,796	6,629
Other noncurrent liabilities	1,146	2,112
Changes in:		
Receivables	342,147	(19,806)
Prepaid expenses and other current assets	(21,439)	(7,656)
Net assets of discontinued operations	4,177	23,126
Accounts payable, accrued expenses and deposits	(19,605)	5,369
Accrued salaries, wages and payroll taxes	(96,471)	(84,666)
Accrued taxes on earnings	(39,936)	(53,232)
	-----	-----
NET CASH USED IN OPERATING ACTIVITIES	140,680	(180,350)
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of marketable securities	(111,837)	(14,682)
Maturities of marketable securities	138,738	1,229
Purchases of property and equipment	(4,149)	(3,263)
Excess of cost over fair value of net tangible assets acquired, net of cash acquired	(223,209)	(2,226)
Other, net	(5,138)	(2,836)
	-----	-----
NET CASH USED IN INVESTING ACTIVITIES	(205,595)	(21,778)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayments of notes payable	(2,808,632)	(1,298,813)
Proceeds from issuance of notes payable	2,740,059	1,338,271
Dividends paid	(20,816)	(33,095)
Proceeds from stock options exercised	1,145	1,862
	-----	-----
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	(88,244)	8,225
	-----	-----

NET DECREASE IN CASH AND CASH EQUIVALENTS	(153,159)	(193,903)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	457,079	405,019
	-----	-----
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	\$ 303,920	\$ 211,116
	=====	=====
SUPPLEMENTAL CASH FLOW DISCLOSURES:		
Income taxes paid	\$ 19,950	\$ 12,319
Interest paid	5,668	1,329

See Notes to Consolidated Financial Statements

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

1. The Consolidated Balance Sheet as of July 31, 1997, the Consolidated Statements of Operations for the three months ended July 31, 1997 and 1996, and the Consolidated Statements of Cash Flows for the three months ended July 31, 1997 and 1996 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 July 31, 1997 and for all periods presented have been made.

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

Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. These consolidated financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's April 30, 1997 Annual Report to Shareholders.

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

2. On September 7, 1997, the Company entered into an Agreement and Plan of Merger (Merger Agreement) under which a subsidiary of WorldCom, Inc. (WorldCom) would acquire CompuServe Corporation (CompuServe). At the effective time of the merger, each of the outstanding shares of CompuServe common stock (including the 74,200,000 shares owned by the Company) are to be converted into the right to receive, and there shall be paid and issued, in exchange for each of the CompuServe shares, .40625 of a share of WorldCom stock, subject to adjustment as provided in the Merger Agreement. The transaction is subject to the satisfaction of certain conditions set forth in the Merger Agreement and is expected to close as soon as practicable after the satisfaction of all of such conditions. The consolidated financial statements have been reclassified to reflect the Company's Computer Services segment as discontinued operations in accordance with Accounting Principles Board Opinion No. 30. Revenues from Computer Services for the three months ended July 31, 1997 and 1996 were \$205.7 million and \$208.6 million, respectively.
3. On June 17, 1997, the Company completed the purchase of Option One Mortgage Corporation (Option One). The cash purchase price was \$218.1 million, consisting of \$28.1 million in adjusted stockholder's equity and a premium of \$190 million. In addition, the Company made a cash payment of \$456

million to Option One's parent to eliminate intercompany loans made to Option One to finance its mortgage loan operations. Both payments are subject to post-closing adjustments. The \$456 million payment was recorded

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as an intercompany loan and was repaid to the Company by the end of June 1997 after Option One sold the loans to a third party in the ordinary course of business. The acquisition was accounted for as a purchase, and accordingly, Option One's results are included since the date of acquisition. The fair value of tangible assets acquired and liabilities assumed was \$683.8 million and \$463.9 million, respectively. Liabilities assumed were treated as a noncash investing activity in the Consolidated Statement of Cash Flows for the three months ended July 31, 1997. The excess of cost over fair value of net tangible assets acquired was \$183.1 million and is being amortized on a straight-line basis over 15 years. The acquisition was financed with short-term borrowings and it is the intention of the Company that the acquisition will ultimately be financed with the issuance of \$250 million in medium-term debt securities in the second quarter of fiscal 1998.

The following unaudited pro forma summary combines the consolidated results of operations of the Company and Option One as if the acquisition had occurred on May 1, 1997 and 1996, after giving effect to certain adjustments, including amortization of intangible assets, increased interest expense on the acquisition debt and the related income tax effects. The pro forma information is presented for information purposes only and is not necessarily indicative of what would have occurred if the acquisition had been made as of those dates. In addition, the pro forma information is not intended to be a projection of future results.

	Three months ended	
	July 31,	
	1997	1996
	----	----
Revenues	\$ 56,017	\$ 40,364
Net loss	(42,036)	(54,146)
Net loss per share	(.40)	(.52)

4. Receivables consist of the following:

	July 31,	April 30,
	1997	1997
	-----	-----
Credit card loans	\$ 245,806	\$ 177,215
Mortgage loans held for sale	223,707	29,623
Other	81,424	230,747
	-----	-----
	550,937	437,585
Allowance for doubtful accounts	32,198	30,144
	-----	-----
	\$ 518,739	\$ 407,441
	=====	=====

5. During the quarter ended July 31, 1997, the net unrealized holding gain on available-for-sale securities increased \$463 to \$1,789.

6. 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.
7. Net loss per common share is based on the weighted average number of shares outstanding during each period. The weighted average shares outstanding for the first quarter of fiscal

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1998 increased to 104,102,000 from 103,823,000 last year, due to the issuance of treasury shares for a franchise acquisition in the first quarter of fiscal 1997 and stock option exercises.

8. During the three months ended July 31, 1997 and 1996, the Company issued 50,145 and 27,406 shares, respectively, pursuant to provisions for exercise of stock options under its stock option plans.
9. During fiscal 1997, CompuServe, certain current and former officers and directors of CompuServe and the registrant were named as defendants in six lawsuits pending before the state and Federal courts in Columbus, Ohio. All but two of the original six cases were brought as putative class actions. 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. Relief sought is unspecified, but includes pleas for rescission and damages. One purported class action lawsuit was voluntarily dismissed by the plaintiffs and such plaintiffs have joined in one of the remaining class action lawsuits in Federal court. The other 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 are both subject to pending motions to dismiss filed on behalf of the defendants, and they are expected to be consolidated pursuant to a scheduling order that has been entered in the first Federal lawsuit. The first state court lawsuit also alleges violations of the Ohio Securities Code and common law of negligent misrepresentation, while another state lawsuit alleges violations of Colorado, Florida, and Ohio statutes and common law of negligent misrepresentation in addition to the 1933 Act claims. Three of the state lawsuits have been consolidated for discovery. A fourth state lawsuit, Philip Silverglate v. CompuServe Corporation, H&R Block, Inc., et al., was filed during the first quarter of fiscal 1998, and is expected to be consolidated with the other state lawsuits in due course. The defendants are vigorously defending these lawsuits.
10. Summarized financial information for Block Financial Corporation (BFC), a wholly owned subsidiary of the Company, is presented below.

	July 31, ----- 1997 -----	April 30, ----- 1997 -----
Condensed balance sheets:		
Cash and cash equivalents	\$ 29,687	\$ 3,425
Finance receivables, net	503,084	380,206
Other assets	271,118	34,657
	-----	-----
Total assets	\$803,889	\$418,288
	=====	=====
Commercial paper	\$657,209	\$269,619
Other liabilities	28,762	26,867
Stockholder's equity	117,918	121,802
	-----	-----
Total liabilities and stockholder's equity	\$803,889	\$418,288

	Three months ended	
	-----	
	July 31,	
	-----	
	1997	1996
	-----	
Condensed statements of operations:		
Revenues	\$28,609	\$8,224
Loss from operations	(6,330)	(1,022)
Net loss	(3,887)	(630)

11. BFC filed a \$1.0 billion shelf registration statement for medium-term debt securities after the end of the first quarter and intends to draw down \$250,000 on the shelf registration in the second quarter, as discussed above. As part of its interest rate risk management strategy, the Company hedged its interest rate risk related to the anticipated issuance of medium-term debt by utilizing treasury rate guarantees. The contract value and market value of these treasury rate guarantees as of July 31, 1997 was \$240,000 and \$234,839, respectively.

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

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 3, respectively.

Working capital decreased from \$821.4 million at April 30, 1997 to \$550.5 million at July 31, 1997. The working capital ratio at July 31, 1997 is 1.6 to 1, compared to 2.3 to 1 at April 30, 1997. The decrease in working capital and working capital ratio is primarily due to the following: (1) working capital was decreased by approximately \$189.3 million due to the acquisition of Option One; and (2) the seasonal nature of the Company's Tax Services 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. During the months of January through April, the Company's Canadian Tax Services regularly incurs short-term borrowings to purchase refunds due its clients from Revenue Canada.



BFC incurs short-term borrowings throughout the year to fund receivables associated with its credit card, nonconforming mortgage loan and other financial service programs. BFC has a \$1.0 billion back-up credit facility to support its various financial activities through December 1997, subject to renewal. At July 31, 1997, short-term borrowings totaled \$657.2 million compared to \$269.6 million at April 30, 1997 due mainly to the acquisition of Option One and the funding of its mortgage operations.

BFC filed a \$1.0 billion shelf registration statement for medium-term debt securities after the end of the first quarter of fiscal 1998. BFC intends to draw down \$250 million on the shelf registration in the second quarter to pay down the commercial paper used to fund the acquisition of Option One, described below.

The Company's capital expenditures, excluding the acquisition of Option One, and dividend payments during the first three months were funded through internally-generated funds.

The Company will pay CompuServe Corporation (CompuServe) approximately \$40 million in the second quarter for the tax benefits derived by the Company from CompuServe's operating losses in the 1996 calendar year using internally-generated funds. Such payment will be made in accordance with the Tax Sharing Agreement between the Company and CompuServe.

Upon the completion of the CompuServe transaction, described below, the Company will hold an approximate 3 percent stake in WorldCom, Inc. (WorldCom) and will evaluate various alternatives to convert its holdings into cash in a timely manner. The proceeds will be used to assist the Company in growing its core tax and financial services businesses and to fund the Company's stock repurchase program discussed below.

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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 of which 4.8 million had been repurchased at July 31, 1997. 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. Such authorization is in addition to the 1993 authorization. Following the completion of the CompuServe transaction, the Company plans to continue to purchase its shares on the open market in accordance with these authorizations. However, the repurchase program will depend on the price of the stock, availability of excess cash, the ability to maintain financial flexibility, and other investment opportunities available.

## RESULTS OF OPERATIONS

### SIGNIFICANT EVENTS

On June 17, 1997, the Company completed the purchase of Option One. Option One engages in the origination, purchase, servicing, securitization and sale of nonconforming mortgage loans. Based in Santa Ana, California, Option One has a network of more than 5,000 mortgage brokers in 46 states. The cash purchase price was \$218.1 million. In addition, the Company made a cash payment of \$456 million to Option One's parent to eliminate intercompany loans made to Option One to finance its mortgage loan operations. Both payments are subject to post-closing adjustments. The \$456 million payment was recorded as an intercompany loan and was repaid to the Company by the end of June 1997 after Option One sold the mortgage loans to a third party in the ordinary course of business. The acquisition was accounted for as a purchase, and accordingly, Option One's results are included since the date of acquisition.

On September 7, 1997, the Company entered into an Agreement and Plan of Merger (Merger Agreement) under which a subsidiary of WorldCom would acquire CompuServe. At the effective time of the merger, each of the outstanding shares of CompuServe common stock (including the 74,200,000 shares owned by the Company) are to be converted into the right to receive, and there shall be paid and issued, in exchange for each of the CompuServe shares, .40625 of a share of WorldCom stock, subject to adjustment as provided in the Merger Agreement. The

transaction is subject to the satisfaction of certain conditions, including, among others, the expiration or termination of any applicable waiting periods under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and any foreign competition law or similar law, the receipt of other regulatory approvals and CompuServe shareholder approval and adoption of the Merger Agreement. The Company has agreed to vote all of its directly or indirectly owned shares of CompuServe common stock in favor of the merger, and such action is sufficient to approve the transaction. The transaction will be treated as a sale of assets for tax purposes and it is expected to close as soon as practicable after the satisfaction of all the conditions set forth in the Merger Agreement. The financial summary below has been reclassified to reflect CompuServe as discontinued operations. CompuServe was previously reported in the Computer Services segment.

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1997 COMPARED TO 1996

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

THREE MONTHS ENDED JULY 31, 1997 COMPARED TO  
THREE MONTHS ENDED JULY 31, 1996  
(AMOUNTS IN THOUSANDS)

	Revenues		Earnings (loss)	
	1997	1996	1997	1996
Tax services	\$ 14,389	\$ 12,282	\$(52,059)	\$(45,229)
Financial services	29,209	8,224	(6,349)	(1,022)
Unallocated corporate	387	109	(2,291)	(3,579)
Investment income, net	-	-	5,190	3,944
Intersegment sales	(18)	-	-	-
	=====	=====	-----	-----
	\$ 43,967	\$ 20,615	(55,509)	(45,886)
	=====	=====	-----	-----
Income tax benefit			(20,648)	(17,391)
			-----	-----
Net loss from continuing operations			(34,861)	(28,495)
Net loss from discontinued operations			(3,274)	(23,731)
			-----	-----
Net loss			\$(38,135)	\$(52,226)
			=====	=====

Consolidated revenues for the three months ended July 31, 1997 increased 113.3% to \$44.0 million from \$20.6 million reported last year. The increase is primarily due to the revenues of the Company's new retail mortgage operations this year of \$18.4 million, which include revenues of Option One, acquired on June 17, 1997.

The consolidated pretax loss from continuing operations for the first quarter of fiscal 1998 increased to \$55.5 million from \$45.9 million in the first quarter of last year. The increase is attributable to the Tax Services segment, which incurred a pretax loss of \$52.1 million compared to \$45.2 million in the first quarter of last year.

The net loss from continuing operations was \$34.9 million, or \$.33 per share, compared to \$28.5 million, or \$.27 per share, for the same period last year.

An analysis of operations by segment follows.

## TAX SERVICES

Revenues increased 17.2% to \$14.4 million from \$12.3 million last year, resulting primarily from higher tax preparation fees that are attributable to increases in pricing and in the number of tax returns prepared.

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The pretax loss increased 15.1% to \$52.1 million from \$45.2 million in the first quarter of last year due to normal operational increases in compensation, rent and utilities. Additionally, expenses associated with continued office acquisitions and expansion, which include rent, salaries and benefits, have contributed to the increased loss. Due to the seasonality of this segment's business, first quarter operating results are not indicative of expected results for the entire fiscal year.

## FINANCIAL SERVICES

Revenues increased 255.2% to \$29.2 million from \$8.2 million in the same period last year. The increase is primarily related to new mortgage operations which contributed increased revenues of \$18.4 million this year. New mortgage operations include revenues related to the recently acquired Option One. Credit card operations also contributed \$2.4 million to the increase due to larger revolving credit card balances over the first quarter of fiscal 1997.

The pretax loss increased to \$6.3 million from \$1.0 million in the first quarter of fiscal 1997, primarily due to increased bad debt expenses resulting from larger revolving credit card balances and operational costs related to the new retail mortgage business. In addition, higher bad debt and compensation expenses in software and online operations, respectively, contributed to the loss.

## INVESTMENT INCOME, NET

Net investment income increased 31.6% to \$5.2 million from \$3.9 million last year. The increase resulted from more funds available for investment.

## UNALLOCATED CORPORATE AND ADMINISTRATIVE

The unallocated corporate and administrative pretax loss for the first quarter decreased 36.0% to \$2.3 million from \$3.6 million in the comparable period last year. The decrease resulted mainly from expenses included in the first quarter of fiscal 1997 of \$517 thousand related to the planned spin-off of the Company's remaining investment in CompuServe. Also contributing to the decrease were lower consultant fees, charitable contributions and insurance expenses.

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## PART II - OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS.

During fiscal 1997, CompuServe Corporation (CompuServe), certain current and former officers and directors of CompuServe and the registrant were named as defendants in six lawsuits pending before the state and Federal courts in Columbus, Ohio. All but two of the original six cases were brought as putative class actions. 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. Relief sought is unspecified, but includes pleas for rescission and damages. One purported class action lawsuit was voluntarily dismissed by the plaintiffs and such plaintiffs have joined in one of the remaining class action lawsuits in Federal court. The other 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 are both subject to pending motions to dismiss filed on behalf of the defendants, and they are expected to be consolidated pursuant to a scheduling order that has been entered in the first Federal lawsuit. The first state court lawsuit also alleges violations of the Ohio Securities Code and common law of negligent misrepresentation, while another state lawsuit alleges violations of Colorado, Florida, and Ohio statutes and common law of negligent misrepresentation in addition to the 1933 Act claims. Three of the state lawsuits have been consolidated for discovery. A fourth state lawsuit, Philip Silverglate v. CompuServe Corporation, H&R Block, Inc., et al., was filed during the first quarter of fiscal 1998, and is expected to be consolidated with the other state lawsuits in due course. The defendants are vigorously defending these lawsuits.

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

a) Exhibits

- 10(a) Amendment and Termination of the H&R Block, Inc. Retirement Plan for Non-Employee Directors
- 10(b) Amendment No. 8 to the H&R Block Deferred Compensation Plan for Executives
- 10(c) Amendment No. 3 to the H&R Block Deferred Compensation Plan for Directors
- 10(d) Amendment No. 4 to the H&R Block Deferred Compensation Plan for Directors
- 10(e) Amendment No. 4 to the H&R Block Supplemental Deferred Compensation Plan for Executives
- (27) Financial Data Schedule.

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b) Reports on Form 8-K

A Form 8-K, Current Report, dated July 2, 1997, was filed by the registrant reporting as an "Item 2" the acquisition of Option One Mortgage Corporation on June 17, 1997. The registrant reported under "Item 7" that the financial statements of Option One Mortgage Corporation and the registrant's pro forma financial statements would be filed as soon as practicable, but no more than 60 days after that Current Report. The registrant did not file any other reports on Form 8-K during the first quarter of fiscal 1998.

A Form 8-K/A, Current Report, dated July 2, 1997, was filed on August 14, 1997 by the registrant reporting as an "Item 7" the audited financial statements of Option One Mortgage Corporation for the years ended December 31, 1996 and 1995, the unaudited financial statements for the three months ended March 31, 1997 and 1996, and the unaudited pro forma financial statements of the registrant for the year ended April 30, 1997. The consent of independent auditors was included as Exhibit 23.1 to the Form 8-K/A.

A Form 8-K, Current Report, dated September 7, 1997, was filed by the registrant reporting as an "Item 5" the entry by the registrant into an Agreement and Plan of Merger with H&R Block Group, Inc., CompuServe Corporation, WorldCom, Inc. and Walnut Acquisition Company, L.L.C., pursuant to which WorldCom, Inc. would acquire CompuServe Corporation through a merger of Walnut Acquisition Company, L.L.C. with and into CompuServe Corporation. The Form 8-K also reported the entry by the registrant into both a Stockholders Agreement and a Standstill Agreement with H&R Block Group, Inc. and WorldCom, Inc. in connection with the Agreement and Plan of Merger. The Agreements were exhibits to the Form 8-K, as was a copy of the joint press release of the registrant and CompuServe Corporation dated September 8, 1997.

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 9/15/97  
-----

BY /s/ Ozzie Wenich  
-----  
Ozzie Wenich  
Senior Vice President,  
Chief Financial Officer  
and Treasurer

DATE 9/15/97  
-----

BY /s/ Patrick D. Petrie  
-----  
Patrick D. Petrie  
Vice President and Corporate Controller

H&amp;R BLOCK, INC.

AMENDMENT AND TERMINATION OF  
THE H&R BLOCK, INC. RETIREMENT PLAN FOR NON-EMPLOYEE DIRECTORS

June 18, 1997

WHEREAS, H&R Block, Inc. (the "Company") previously adopted the H&R Block, Inc. Retirement Plan for Non-Employee Directors (the "Retirement Plan") for the benefit of eligible Directors; and

WHEREAS, the Company retained the right to amend and terminate the Retirement Plan pursuant to Section 9 thereof; and

WHEREAS, the Company desires to amend and terminate the Retirement Plan effective as of June 18, 1997;

NOW, THEREFORE, effective as of June 18, 1997, the Retirement Plan is amended by adding the following new Section 12:

"12. Termination of Plan.

Notwithstanding anything to the contrary contained herein, effective as of June 18, 1997, (the "Termination Date"), this Plan is terminated. Each Non-Employee Director of the Company as of the Termination Date shall receive in lieu of any benefits under the Plan in accordance with his or her irrevocable election, either (a) a number of stock units under the H&R Block, Inc. Stock Plan for Non-Employee Directors ("Stock Plan") equal to the quotient obtained by dividing (i) the present value on the Termination Date of his or her accrued benefits under the Retirement Plan, as determined by an independent actuarial consultant without regard to any service requirements under such Retirement Plan, utilizing an interest rate of eight percent (8%), and utilizing an annual director retainer rate equal to the annual retainer for Non-Employee Directors in effect on the Termination Date (the "Present Value of Benefits"), by (ii) the average of the high and low sales prices quoted on the New York Stock Exchange Composite Listing on the Termination Date for the Company's Common Stock, without par value, or (b) a contribution to the H&R Block Deferred Compensation Plan for Directors ("DCP") in the exact amount of the Present Value of Benefits, with such contribution invested in the H&R Block, Inc. stock investment option (without the right to move such investment to one of the other investment options), provided, however that notwithstanding the foregoing formula applicable to the Stock Plan, no Non-Employee Director electing to receive benefits under the Stock Plan shall be credited with less than 1,000 stock units under such Stock Plan, and provided further that, should the shareholders of the Company fail for any reason to approve the Stock Plan at the annual meeting of shareholders in 1997, each Non-Employee Director of the Company as of the Termination Date shall receive the above-described benefits under the DCP in lieu of benefits under this

Plan. To the extent that a Non-Employee Director elects to receive benefits under the Stock Plan and the application of the formula described in this Section 12 results in a number of stock units under the Stock Plan other than an even 100-lot number of stock units, the result shall be rounded up upwards to the next 100-lot whole number of stock units. Except as set forth in this Section 12, no benefits shall accrue or be paid under this Plan after the Termination Date."

IN WITNESS WHEREOF, the foregoing Amendment was adopted on the 18th day of June, 1997, effective as of June 18, 1997.

H&amp;R BLOCK, INC.

By: /s/ Frank L. Salizzoni

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President and Chief  
Executive Officer

AMENDMENT NO. 8  
TO THE  
H&R BLOCK DEFERRED COMPENSATION PLAN  
FOR EXECUTIVES

EXHIBIT 10(B)

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; and by Amendment No. 7, effective December 11, 1996. 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. 8 is effective as of January 1, 1998.

AMENDMENT

1. Section 2.1.4 of the Plan, as previously amended, is further amended by replacing said Section with the following new Section 2.1.4:

"2.1.4 'Annual Deferral Amount' means the amount of Base Salary and/or Bonus that a Participant elects to defer each Plan Year under a Permissible Deferral. The amount of Base Salary included in the Annual Deferral Amount shall be equal to a percentage of the Participant's Base Salary that is not less than three percent (3%) and not greater than thirty-five percent (35%). The amount of Bonus or Bonuses included in the Annual Deferral Amount shall be equal to (i) a flat dollar amount, expressed in one thousand dollar (\$1,000) increments, or (ii) a percentage of the Bonus or Bonuses paid during the Plan Year that is not less than five percent (5%) and not greater than one hundred percent (100%), expressed in five percent (5%) increments."

2. Section 2.1.5 of the Plan is amended by deleting the phrase ", as determined as of the later of July 1, 1987 or the date on which the Participant first becomes eligible to participate in the Plan" and replacing it with the phrase "during that Plan Year".

3. Section 2.1.13 of the Plan is deleted and Section 2.1.13a is redesignated as Section 2.1.13.

4. The following new Section 2.1.18a is added to the Plan immediately after Section 2.1.18 and before Section 2.1.19:

"2.1.18a 'Fixed 120 Account' means an Account that represents amounts deferred by a Participant under a Permissible Deferral election(s)

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as a part of which the Participant elected the fixed rate investment option described in the second paragraph of Section 4.2.1."

5. Section 2.1.23, as previously amended, is further amended by replacing said Section with the following new Section 2.1.23:

"2.1.23 'Permissible Deferral' means, with respect to a Plan Year, a deferral in that Plan Year of an Annual Deferral Amount. The aggregate of all deferrals may not exceed two hundred eighty percent (280%) of the Participant's total annual salary and wages paid by all Affiliates to such individual, as determined as of the later of July 1, 1987 or the date on which the Participant first became eligible to participate in the Plan. For purposes of the preceding sentence, such annual salary and wages shall include and exclude the same items of remuneration as are included or excluded from annual salary and wages in the definition of Base Salary.

"Deferrals may be made from Base Salary for a Plan Year and/or from a Bonus or Bonuses paid during the Plan Year. Deferrals from the Base Salary or from a Bonus or Bonuses are made in separate elections by the Participant during the Enrollment Period prior to the Plan Year



or during which such Base Salary and Bonus would be otherwise be paid to the Participant. Deferral elections must specify (i) the percentage (stated as an integer) of the deferral that is intended to be deducted from the Base Salary and (ii) the percentage (stated as an integer) or the flat dollar amount of the deferral that is intended to be deducted from the Bonus or Bonuses. Deferrals made from the Base Salary shall be made in installments, as instructed and approved by the Committee. Deferrals made from each Bonus shall be made at the time or times during the Plan Year that the Bonus would otherwise be paid to the Participant. Each installment of a deferral shall be rounded to the nearest whole dollar amount."

6. Section 2.1.25 of the Plan, as previously amended, is further amended by replacing the second sentence thereof with the following new sentence:

"For Permissible Deferrals of Group A Participants elected to commence on or before May 1, 1990, "Plan Year" means the twelve month period ending each April 30, through April 30, 1997, the period between May 1, 1997 and December 31, 1997, inclusive, and the calendar year thereafter."

7. Section 2.1.26 of the Plan is deleted and Sections 2.1.27, 2.1.28 and 2.1.29 are redesignated as Sections 2.1.26, 2.1.27 and 2.1.28, respectively.

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8. Section 4.1.1 of the Plan, as previously amended, is further amended by (i) replacing the second sentence of the first paragraph with the following new sentence:

"Deferrals from Base Salary each calendar month shall be posted as of the first day of such month and deferrals from Bonuses shall be posted as of the first day of the calendar month in which the Bonus would otherwise have been paid to the Participant.";

and (ii) by replacing the second sentence of the second paragraph with the following new sentence:

"Deferrals from Base Salary each calendar month (and the corresponding number of Deferred Compensation Units) shall be posted as of the first day of such month and deferrals from Bonuses shall be posted as of the first day of the calendar month in which the Bonus would otherwise have been paid to the Participant."

9. Section 4.1.2 of the Plan, as previously amended, is further amended by replacing the words "Base Salary" at the end of the second sentence thereof with the following new language:

"the Participant's total salary and wages paid by all Affiliates to such individual, as determined as of the later of July 1, 1987 or the date on which the Participant first became eligible to participate in the Plan. For purposes of the preceding sentence, such annual salary and wages shall include and exclude the same items of remuneration as are included or excluded from annual salary and wages in the definition of Base Salary."

10. The following new Section 4.1.6 is added to the Plan immediately after Section 4.1.5 and before Section 4.2:

"4.1.6 Fixed 120 Account Special Deferral Election. A Participant making Base Salary and/or Bonus deferrals into a Fixed 120 Account as of December 31, 1997 may make a special, one-time election to have all then outstanding and incomplete Fixed 120 Account deferral cycles deemed completed as of December 31, 1997. If a Participant makes such election, effective as of January 1, 1998, no future deferrals from Base Salary or Bonuses will be posted to the Fixed 120 Account. If a Participant does not make such election, deferrals shall continue in accordance with the Participant's original Permissible Deferral

election. All Permissible Deferral elections, except those involving Fixed 120 Accounts, made prior to January 1, 1997, for deferral periods consisting of consecutive Plan Years continuing after December 31, 1997, shall terminate as of December 31, 1997, and shall be of no further effect."

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11. Section 4.2 of the Plan, as previously amended, is further amended by (i) replacing the phrase "irrevocable election of an investment option" in the first sentence thereof with the phrase "election of investment options"; (ii) replacing the phrase "one of" in the fourth sentence thereof with the words "from among"; (iii) deleting the word "irrevocable" from the fifth sentence thereof; (iv) by adding the following new sentences to the end of said Section:

"Effective as of January 1, 1998, Participants may elect to reallocate all or any portion of their Account balances, including their entire balance in a Fixed 120 Account, among the available investment options, including those funds selected by the Company for the variable rate investment option, provided said reallocations are in at least ten percent (10%) increments. If a Participant does elect to reallocate his or her entire Fixed 120 Account balance to another investment option, said Fixed 120 Account will be deemed closed and terminated. In no event shall a Participant be entitled to reallocate an Account balance that is not a Fixed 120 Account balance into a Fixed 120 Account.";

and (v) by adding the following new paragraph to the end of this Section:

"Subject to the percentage limits in the preceding paragraph, Participants may change their measuring fund elections once each calendar month by giving the Committee written notice of such change on a form provided by the Company for that purpose. Upon receipt of such notice, the Committee will effect the change on the first day of the calendar month immediately following the month in which such notice was received. Such change will govern the Participant's Account balance and future deferrals occurring on or after the effective date."

12. Section 4.2.1 of the Plan, as previously amended, is further amended by deleting the phrase "Except as specified in Section 4.2.4," and capitalizing the word "if" in the first sentence thereof.

13. Section 4.2.2 of the Plan, as previously amended, is further amended (i) by deleting the phrase "Except as specified in Section 4.2.4," and capitalizing the first word "if" in the first sentence thereof; and (ii) by deleting the fifth, sixth and seventh sentences therefrom.

14. Section 4.2.4 of the Plan is deleted.

15. Section 4.3 of the Plan, as previously amended, is further amended by deleting the third sentence thereof and replacing it with the following new sentence:

"If a Participant terminates employment with all Affiliates before Normal Retirement Date or Early Retirement Date as a result of a Change of Control, gains and losses to all of that Participant's Accounts shall be

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credited as described in Section 4.2 up to, but not after, the date of the Change of Control."

16. Section 4.4.1 of the Plan, as previously amended, is further amended by replacing said Section with the following new Section 4.4.1:

"4.4.1 If a Participant terminates employment with all Affiliates on or after August 1, 1995, but before the Normal Retirement Date or the Early Retirement Date, for reasons other than death, Disability or a change of Control, gains and losses shall be credited to that Participant's Account as described in Section 4.2 up to the date of termination of employment, and the crediting shall continue after such date for those Participants who elected a 10-year payout or a 5-year payout, as such terms are defined in Section 6.3.2. If a Participant elected to be paid in a lump sum, there shall be no further crediting to the Participant's Account following the date of termination of employment."

17. Section 4.4.2 of the Plan, as previously amended, is further amended by replacing all references therein to "Completed Deferral Cycle" with "completed deferral cycle".

18. Section 5.1 of the Plan, as previously amended, is further amended by (i) deleting the second sentence of said Section; and (ii) replacing the third sentence thereof with the following new sentence:

"The Participant's interest in the Company Matching Contributions under Section 4.1.2 and the Company Contributions described in Section 4.1.3 shall vest according to the following schedule:

Years of Service	Percentage of Company Contributions Vested
-----	-----
Less than 2	None
2	20%
3	30%
4	40%
5	50%
6	60%
7	70%
8	80%
9	90%
10	100%"

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19. Section 6.3.1 of the Plan, as previously amended, is further amended by replacing the phrase "ninety (90) days" with the phrase "forty-five (45) days" in the first sentence thereof.

20. Section 6.3.3 of the Plan, as previously amended, is further amended by replacing all references therein to "Completed Deferral Cycle" with "completed deferral cycle".

21. Section 6.4.5 of the Plan, as previously amended, is further amended by replacing the reference therein to "Completed Deferral Cycle" with "completed deferral cycle".

22. Section 6.5 is amended by (i) replacing the first sentence thereof with the following new sentences:

"Generally, benefit payments to a Participant shall commence in the first pay period of the first calendar quarter that begins at least

forty-five (45) days after the date of termination of employment. Notwithstanding the preceding sentence, if a Participant elected to be paid in a lump sum, the benefit payment shall be made within forty-five (45) days after the date of termination of employment.";

(ii) adding the phrase "With respect to Permissible Deferral elections made prior to January 1, 1997," at the beginning of the first sentence of the second paragraph thereof and replacing the word "A" with the word "a" in such sentence; and (iii) by adding the following new sentences to the end of the second paragraph of said Section:

"Participants who elected in connection with a Permissible Deferral election made prior to January 1, 1997, to defer the commencement of the payment of benefits until the earlier of (a) five (5) years after termination of employment, or (b) Age 70, shall receive benefit payments in accordance with said election, unless they make a special, one time election, effective as of December 31, 1997, to be paid in accordance with the provisions of the first paragraph of this Section. No new elections to defer commencement of benefits shall be permitted under the provisions of this Plan with respect to Permissible Deferrals commencing on or after January 1, 1998."

- 23. Schedule A to the Plan is deleted therefrom.
- 24. Schedule B to the Plan is deleted therefrom.

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25. Except as modified in this Amendment No. 8, the Plan, as previously amended, shall remain in full force and effect, including the Company's right to amend or terminate the Plan as set forth in Article 9 of the Plan.

H&R BLOCK, INC.

By: /s/ Frank L. Salizzoni  
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Its: President and Chief  
Executive Officer  
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AMENDMENT NO. 3  
TO THE  
H&R BLOCK  
DEFERRED COMPENSATION PLAN FOR DIRECTORS

H&R BLOCK, INC. (the "Company") adopted the H&R Block Deferred Compensation Plan for Directors (the "Plan") effective as of September 1, 1987. The Company amended said Plan by Amendment No. 1 effective May 1, 1995; and by Amendment No. 2 effective December 11, 1996. The Company continues to retain the right to amend the Plan pursuant to action by the Company's Board of Directors. The Company hereby exercises that right. This Amendment No. 3 is effective as of May 1, 1997.

AMENDMENT

1. Section 2.1.16 of the Plan is amended by deleting the last sentence from the second paragraph of said Section.

2. Section 6.1 of the Plan, as previously amended, is further amended by (i) adding the word "or" after subsection (a) thereof; (ii) replacing the semi-colon and the word "or" in subsection (b) thereof with a period; and (iii) deleting subsection (c) therefrom.

3. Section 6.3 of the Plan is amended by deleting the text of the Section in its entirety and inserting the word "[Repealed]" in its place.

4. Except as modified in this Amendment No. 3, the Plan, as previously amended, shall remain in full force and effect, including the Company's right to amend or terminate the Plan as set forth in Article 9 of the Plan.

H&R BLOCK, INC.

By: /s/ Frank L. Salizzoni

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Its: President and Chief  
Executive Officer  
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AMENDMENT NO. 4  
TO THE  
H&R BLOCK  
DEFERRED COMPENSATION PLAN FOR DIRECTORS

EXHIBIT 10 (D)

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

AMENDMENT

1. Section 2.1.12 of the Plan is amended by deleting the first sentence thereof and replacing it with the following new sentence:

"Enrollment Period" for a Plan Year commencing January 1 means the immediately preceding period of October 1 through December 15."

2. The following new Section 2.1.12a is added to the Plan immediately after Section 2.1.12 and before Section 2.1.13:

"2.1.12a 'Fixed 120 Account' means an Account that represents amounts deferred by a Participant under a Permissible Deferral election(s) as a part of which the Participant elected the fixed rate investment option and which deferral commenced prior to January 1, 1995, the effective annual yield of which is equal to one hundred twenty percent (120%) of the ten-year rolling average rate of ten-year United States Treasury notes. The ten-year rolling average rate will be the rate in effect as of September 30 of the Plan Year immediately prior to the Plan Year to which it applies, as published by Salomon Brothers, Inc., or any successor thereto, or as determined by the Chief Financial Officer of the Company."

3. Section 2.1.16 of the Plan, as previously amended, is further amended by deleting the phrase "each of the next four (4) consecutive Plan Years" in the first paragraph thereof and replacing it with the phrase "a Plan Year".

4. Section 2.1.18 of the Plan is replaced with the following new Section 2.1.18:

"2.1.18 'Plan Year' means the calendar year for Permissible Deferrals of Participants elected to commence on January 1, 1998, or later. For Permissible Deferrals of Participants elected to commence on or before

May 1, 1997, 'Plan Year' means the 8 month period ending December 31, 1997."

5. Section 2.1.19 of the Plan is deleted and Sections 2.1.20 and 2.1.21 are redesignated as Section 2.1.19 and 2.1.20, respectively.

6. The following new Section 4.1.1 is added to the Plan immediately after Section 4.1 and before Section 4.2:

"4.1.1 Fixed 120 Account Special Deferral Election. A Participant who is making deferrals into a Fixed 120 Account may make a special, one-time election to have all the outstanding and incomplete Fixed 120 Account deferral cycles deemed completed as of December 31, 1997. If a Participant makes such election, effective as of January 1, 1998, no future deferrals from Director's Fees will be posted to the Fixed 120 Account. If a Participant does not make such election, deferrals shall continue in accordance with the Participant's original Permissible Deferral election. All Permissible Deferral elections, except those involving Fixed 120 Accounts, made prior to May 1, 1997, for deferral periods consisting of consecutive Plan Years continuing after December 31, 1997, shall terminate as of

December 31, 1997, and shall be of no further effect."

7. Section 4.2 of the Plan is amended by (i) replacing the phrase "irrevocable election of an investment option" in the first sentence thereof with the phrase "election of investment options"; (ii) replacing the phrase "one of" in the fourth sentence thereof with the words "from among"; (iii) deleting the word "irrevocable" from the fifth sentence thereof; (iv) by adding the following new sentences to the end of said Section:

"Effective as of January 1, 1998, Participants may elect to reallocate all or any portion their Account balances, including their entire balance in a Fixed 120 Account, among the available investment options, including those funds selected by the Company for the variable rate investment option, provided said reallocations are in at least ten percent (10%) increments. If a Participant does elect to reallocate his or her entire Fixed 120 Account balance to another investment option, said Fixed 120 Account will be deemed closed and terminated. In no event will any reallocation of Account balances into a Fixed 120 Account be permitted under the provisions of this Plan.";

and (v) by adding the following new paragraph to the end of this Section:

"Subject to the percentage limits in the preceding paragraph, participants may change their measuring fund elections once each calendar month by giving the Committee written notice of such change on a form provided by the Company for that purpose. Upon receipt of such notice, the Committee will effect the

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change on the first day of the calendar month immediately following the month in which such notice was received. Such change will govern the Participant's Account balance and future deferrals occurring on or after the effective date."

8. Section 4.2.1 of the Plan, as previously amended, is further amended by deleting the phrase "Except as specified in Section 4.2.4," and capitalizing the word "if" in the first sentence thereof.

9. Section 4.2.2 of the Plan, as previously amended, is further amended (i) by deleting the phrase "Except as specified in Section 4.2.4," and capitalizing the word "if" in the first sentence thereof; and (ii) by deleting the fifth, sixth and seventh sentences therefrom.

10. Section 4.2.4 of the Plan is deleted.

11. The following new Section 4.3 is added to the Plan:

"Section 4.3 Deferrals Relating to Retirement Plan. In the event of termination of the H&R Block, Inc. Retirement Plan for Non-Employee Directors (the "Retirement Plan"), each Director who is participating in said Retirement Plan as of the date of its termination shall have the option to make a special, one-time contribution in an amount equal to the actuarial present value benefits earned under the Retirement Plan, valued as of the date of termination. Performance of all amounts so transferred per the terms of this Section 4.3 shall be measured in accordance with the Common Stock crediting rate option as described in Section 4.2.3."

12. Section 6.1 of the Plan, as previously amended, is further amended by replacing the last sentence thereof with the following new sentence:

"Except as otherwise provided, benefit payments shall commence in the first pay period of the first calendar quarter that begins at least forty-five days after the occurrence of the event described in the preceding sentence which results in benefit distribution."

13. Section 6.2.1 of the Plan is amended by inserting the following language to the end of subsection (b) thereof, before the period:

"paid within forty-five (45) days after the termination of the Participant's membership on all Boards of Directors of all Participating Affiliates".

14. Schedule A of the Plan is deleted therefrom.

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

H&R BLOCK, INC.

By: /s/ Frank L. Salizzoni

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Its: President and Chief  
Executive Officer  
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AMENDMENT NO. 4 EXHIBIT 10 (E)  
 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; and by Amendment No. 3 effective December 11, 1996. The Company continues to retain the right to amend the Plan, pursuant to action by the Company's Board of Directors. The Company hereby exercises that right. This Amendment No. 4 is effective as of January 1, 1998.

AMENDMENT

1. Section 2.1.4 of the Plan, as previously amended, is further amended by replacing said Section with the following new Section 2.1.4:

"2.1.4 'Annual Deferral Amount' means the amount of Base Salary and/or Bonus that a Participant elects to defer each Plan Year under a Permissible Deferral. The amount of Base Salary included in the Annual Deferral Amount shall be equal to a percentage of the Participant's Base Salary that is not less than three percent (3%) and not greater than thirty-five percent (35%). The amount of Bonus or Bonuses included in the Annual Deferral Amount shall be equal to (i) a flat dollar amount, expressed in one thousand dollar (\$1,000) increments, or (ii) a percentage of the Bonus or Bonuses paid during the Plan Year that is not less than five percent (5%) and not greater than one hundred percent (100%), expressed in five percent (5%) increments."

2. Section 2.1.5 of the Plan is amended by deleting the phrase ", as determined as of the date on which the Participant first becomes eligible to participate in the Plan" and replaced with the phrase "during that Plan Year".

3. Section 2.1.25 of the Plan is amended by (i) replacing the phrase "Base Salary" in the second sentence of the first paragraph thereof with the phrase "the Participant's total annual salary and wages paid by all Affiliates to such individual, as determined as of the date on which the Participant first became eligible to participate in the Plan"; (ii) adding the following new sentence to the end of the first paragraph:

"For purposes of the preceding sentence, such annual salary and wages shall include and exclude the same items of remuneration as are included or excluded from annual salary and wages in the definition of Base Salary.";

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and (iii) replacing the third sentence of the second paragraph of said Section with the following new sentence:

"Deferral elections must specify (i) the percentage (stated as an integer) of the deferral that is intended to be deducted from the Base Salary and (ii) the percentage (stated as an integer) or the flat dollar amount of the deferral that is intended to be deducted from the Bonus or Bonuses."

4. Section 4.1.1 of the Plan, as previously amended, is further amended by replacing the second sentence thereof with the following new sentence:

"Deferrals from Base Salary (and the corresponding number of Deferred Compensation Units) each calendar month shall be posted as of the first day of such month and deferrals from Bonuses (and the corresponding number of Deferred Compensation Units) shall be posted as of the first day of the calendar month in which the Bonus would otherwise have been paid to the Participant."

5. Section 4.3.2 of the Plan, as previously amended, is further amended by replacing the second and third sentences thereof with the following new

sentences:

"Earnings after such date shall continue for those Participants who elected a 10-year payout or a 5-year payout, as such terms are defined in Section 6.3.2. If a Participant elected to be paid in a lump sum, there shall be no further crediting to the Participant's Account following the date of termination of employment."

6. Section 6.3.1 of the Plan, as previously amended, is further amended by replacing the phrase "ninety (90) days" with the phrase "forty-five (45) days".

7. Section 6.5 is amended by (i) replacing the first sentence thereof with the following new sentences:

"Generally, benefit payments to a Participant shall commence in the first pay period of the first calendar quarter that begins at least forty-five (45) days after the date of termination of employment. Notwithstanding the preceding sentence, if a Participant elected to be paid in a lump sum, the benefit payment shall be made within forty-five (45) days after the date of termination of employment.";

(ii) adding the phrase "With respect to Permissible Deferral elections made prior to January 1, 1997," at the beginning of the first sentence of the second paragraph thereof and replacing the

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word "A" with the word "a" in such sentence; and (iii) by adding the following new sentences to the end of the second paragraph of said Section:

"Participants who elected in connection with a Permissible Deferral election made prior to January 1, 1997, to defer the commencement of the payment of benefits until the earlier of (a) five (5) years after termination of employment, or (b) Age 70, shall receive benefit payments in accordance with said election, unless they make a special, one time election, effective as of December 31, 1997, to be paid in accordance with the provisions of the first paragraph of this Section. No new elections to defer commencement of benefits shall be permitted under the provisions of this Plan with respect to Permissible Deferrals commencing on or after January 1, 1998."

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

H&R BLOCK, INC.

By: /s/ Frank L. Salizzoni

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Its: President and Chief  
Executive Officer  
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<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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<NET-INCOME>		(38135)
<EPS-PRIMARY>		(.37)
<EPS-DILUTED>		0

<F1>PP&E balance is net of accumulated depreciation and amortization.

<F2>Net of taxes on earnings of \$1488.

</FN>