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

FORM 10-K

(Mark One)
[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED: APRIL 30, 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	44-0607856
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
4400 Main Street, Kansas City, Missouri	64111
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (816) 753-6900

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

Title of each class	Name of each exchange on which registered
Common Stock, without par value	New York Stock Exchange Pacific Stock Exchange

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

Common Stock, without par value
(Title of Class)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No ___.

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

The aggregate market value of the voting stock held by non-affiliates of the registrant, computed by reference to the price at which the stock was sold on June 1, 1997, was $3,265,139,295.

Number of shares of registrant's Common Stock, without par value, outstanding on June 1, 1997: 104,078,315.

DOCUMENTS INCORPORATED BY REFERENCE

Certain specified portions of the registrant's annual report to security holders for the fiscal year ended April 30, 1997, are incorporated herein by reference in response to Part I, Item 1, Part II, Items 5 through 8, inclusive, and certain specified portions of the registrant's definitive proxy statement filed within 120 days after April 30, 1997, are incorporated herein by reference in response to Part III, Items 10 through 13, inclusive. A certain specified portion of the annual report on Form 10-K of CompuServe Corporation for the fiscal year ended April 30, 1997, is incorporated herein by reference in response to Part I, Item 1, and Part I, Item 2.

PART I

ITEM 1. BUSINESS.

GENERAL DEVELOPMENT OF BUSINESS

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

Developments within H&R Block Tax Services, Inc., H&R Block International and Block Financial Corporation during fiscal year 1997 are described in the section below entitled "Description of Business." The descriptions of the business and properties of CompuServe Corporation are contained in the annual report on Form 10-K of CompuServe Corporation for the fiscal year ended April 30, 1997, in the section entitled "Business and Properties," and such descriptions are incorporated herein by reference. A copy of the Form 10-K of CompuServe Corporation will be provided free of charge upon request sent to H&R Block, Inc., 4400 Main Street, Kansas City, Missouri 64111, Attention: Investor Relations.

During fiscal year 1997, Frank L. Salizzoni became President and Chief Executive Officer of the Company. Mr. Salizzoni replaced Richard H. Brown who, on May 15, 1996, announced his intentions to become chief executive of Cable & Wireless Group plc in London effective July 1, 1996. Mr. Salizzoni was elected

President and Chief Executive Officer of the Company on an interim basis effective June 19, 1996, and on a permanent basis on October 11, 1996, when he was also elected Chairman of the Board of CompuServe Corporation.

Just prior to the beginning of fiscal year 1997, H&R Block Group, Inc.'s ownership of CompuServe stock was reduced from 100% to approximately 80.1% as a result of CompuServe's initial public offering of its common stock. Pursuant to the April 1996 offering, CompuServe sold 18.4 million shares of its common stock to the public at $30.00 per share. The net proceeds of the initial public offering received by CompuServe were $518,819,000. The initial public offering was the initial phase of a complete separation of CompuServe Corporation from the Company first announced in February 1996. In July 1996, the Company indicated its intent to complete the separation by means of a pro rata distribution of the remaining 74,200,000 shares of CompuServe Corporation stock to shareholders of the Company on or about November 1, 1996, subject to certain conditions, including shareholder approval of the distribution at the 1996 annual meeting of shareholders of the Company and the receipt of a favorable ruling from the Internal Revenue Service ("IRS") as to the tax-free nature of the transaction.

On August 28, 1996, the Company's Board of Directors announced its decision not to present to shareholders at the September 1996 annual meeting of shareholders the proposed pro rata distribution of the remaining CompuServe shares. The decision was based, in part, on CompuServe's first quarter and projected second quarter losses, market uncertainties related to the online industry, and the planned September introduction of new interfaces for CompuServe's online services: CompuServe Information Service and WOW!. The August 28 announcement reiterated the Board of Directors' belief that a separation of CompuServe is in the best interests of the Company's shareholders and stated that the Board will continue to consider the matter.

On November 21, 1996, CompuServe confirmed its previously forecast second-quarter loss, announced an accelerated amortization of previously capitalized subscriber acquisition costs, and disclosed a shift in its marketing strategy to reduce costs and to focus on business and professional subscribers to its online service, as well as the profitable segments of the consumer market. As a part of the shift in strategy, CompuServe announced the withdrawal of the family-oriented WOW! online service from the marketplace effective January 31, 1997.

On February 17, 1997, CompuServe Corporation announced that Robert J. Massey had resigned as CompuServe's President and Chief Executive Officer, effective immediately. His duties were assumed on an interim basis by Frank L. Salizzoni, CompuServe's Chairman of the Board.

In April 1997, the Company and CompuServe each announced that they were engaged in external discussions regarding a possible business combination involving CompuServe. The announcements stated that there were no assurances that such discussions would result in any agreement or transaction.

During the year ended April 30, 1997, the Company was not involved in any bankruptcy, receivership or similar proceedings or any material reclassifications, mergers or consolidations, and the Company did not acquire or dispose of any material amount of assets otherwise than in the ordinary course of business.

On April 16, 1997, the Company announced that Block Financial Corporation had agreed to purchase all of the stock of Option One Mortgage Corporation ("Option One") from Fleet Financial Group, Inc. ("Fleet"). Option One engages in the origination, purchase, servicing, securitization and sale of one-to-four family residential mortgage loans made primarily to sub-prime borrowers who do not qualify for loans which conform to FNMA or FHLMC guidelines. It is based in Santa Ana, California, with a network of more than 5,000 mortgage brokers in 46 states. On June 17, 1997, Block Financial Corporation completed the purchase. The purchase price was $218.1 million in cash, consisting of $28.1 million in adjusted stockholder's equity and a premium of $190 million. In addition, Block Financial Corporation made a cash payment of $456 million to Fleet to eliminate intercompany loans made to Option One to finance Option One's mortgage loan business. Both payments are subject to post-closing adjustments. The $456 million payment was recorded as an intercompany loan from Block Financial Corporation to Option One and was repaid by Option One by the end of June 1997 after Option One sold mortgage loans to a third-party in the ordinary course of business.

FINANCIAL INFORMATION ABOUT INDUSTRY SEGMENTS

The information required by Item 101(b) of Regulation S-K relating to financial information about industry segments is contained in the Notes to Consolidated Financial Statements in the Company's annual report to security holders for the fiscal year ended April 30, 1997, and is hereby incorporated herein by reference.

NUMBER OF EMPLOYEES

The Company, including its direct and indirect wholly owned subsidiaries, has approximately 1,640 regular full-time employees. The highest number of persons employed by the Company during the

fiscal year ended April 30, 1997, including seasonal employees, was approximately 78,900. As of April 30, 1997, CompuServe had approximately 3,050 full-time employees.

DESCRIPTION OF BUSINESS

DIVERSIFIED SERVICES

Through its subsidiaries, the Company provides to the public diversified services that include income tax return preparation, electronic filing and other services related to income tax return preparation, credit cards, nonconforming mortgages, personal productivity computer software, online and Internet access services, and network access, management and applications. The Company also purchases participation interests in refund anticipation loans made by a third-party lending institution and offers equity lines of credit to the Company's franchisees. The description of the business of CompuServe Corporation is contained in the annual report on Form 10-K of CompuServe Corporation for the fiscal year ended April 30, 1997, in the section entitled "Business and Properties," and such description is incorporated herein by reference.

TAX SERVICES

Generally. The income tax return preparation and related services business is the original core business of the Company. These services are provided to the public through a system of offices operated by the Company or by others to whom the Company has granted franchises. The Company and its franchisees provide income tax return preparation services, electronic filing services and other services relating to income tax return preparation in many parts of the world. For U.S. returns, H&R Block offers a refund anticipation loan service and an electronic refund service in conjunction with its electronic filing service. H&R Block also markets its knowledge of how to prepare income tax returns through its income tax training schools.

In May 1996, the Company announced that its tax operations would be divided structurally into three areas, each targeting specific markets and focusing on new products and services and areas for expansion. H&R Block Tax

Services, Inc., focuses on tax business operations in the United States. H&R Block Premium, a division of Tax Services, competes for those clients who typically have more complex income tax returns and features meetings by appointment any time of the year, private offices and more experienced preparers. H&R Block International focuses on strengthening current foreign markets, such as Canada and Australia, and identifying and developing new ones.

References in this section to "Tax Services" include H&R Block Tax Services, Inc., and its subsidiaries involved in the income tax return preparation business, as well as those foreign subsidiaries

of the Company now operating as a part of H&R Block International. References in this section to "H&R Block" include both Tax Services and its franchisees.

Taxpayers Served. H&R Block served approximately 18,190,000 taxpayers worldwide during fiscal year 1997, an increase from the 17,415,000 taxpayers served in fiscal year 1996. The number of taxpayers served by H&R Block in fiscal year 1997 in the United States alone was approximately 15,600,000, compared to 14,800,000 in fiscal 1996. "Taxpayers served" includes taxpayers for whom H&R Block prepared income tax returns as well as taxpayers for whom Block provided only electronic filing services.

Tax Return Preparation. During the 1997 income tax filing season (January 2 through April 30), H&R Block offices prepared approximately 14,302,000 individual United States income tax returns, compared to the preparation of 13,360,000 such returns in fiscal year 1996. These U.S. returns constituted about 13% of an IRS estimate of total U.S. individual income tax returns filed during fiscal year 1997. The following table shows the approximate number of U.S. income tax returns prepared at H&R Block offices during the last five tax filing seasons:

Tax Season Ended April 30
(in thousands)

	1993	1994	1995	1996	1997
Returns Prepared	12,968	13,036	12,918	13,360	14,302

During the tax season, most H&R Block offices are open from 9:00 a.m. to 9:00 p.m. weekdays and from 9:00 a.m. to 5:00 p.m. Saturdays and Sundays. Office hours are often extended during peak periods. Most tax preparation business is transacted on a cash basis. The procedures of Tax Services have been developed so that a customer's tax return is prepared in his or her presence, in most instances in less than one hour, on the basis of information furnished by the customer. In all company-owned offices and most franchised offices, tax returns are prepared with the assistance of a computer. After the customer's return has been initially prepared, he or she is advised of the amount of his or her tax due or refund. Pursuant to the one-stop service offered at Company-owned offices in 1997, the return is reviewed for accuracy and presented to the customer for signature and filing during his or her initial visit to the office. The income tax preparation procedures must be modified somewhat for customers who desire to have their returns electronically filed (see "Electronic Filing," below).

If an H&R Block preparer makes an error in the preparation of a customer's tax return that results in the assessment of any interest or penalties on additional taxes due, while H&R Block does not assume the liability for the additional taxes (except under its

"Peace of Mind" Program described under "Additional Products and Services," below), it guarantees payment of the interest and penalties.

H&R Block Premium. In addition to its regular offices, H&R Block offers tax return preparation services at H&R Block Premium offices in the United States and Canada. Appealing to taxpayers with more complicated returns, H&R Block Premium, formerly known as Executive Tax Service, stresses the convenience of appointments, year-round tax service from the same preparer and private office interviews. The number of H&R Block Premium offices increased from 576 in fiscal year 1996 to 614 in 1997. In fiscal 1997, the number of H&R Block Premium clients increased to approximately 698,000, compared to approximately 643,200 in 1996. The Company plans to continue to expand the H&R Block Premium segment of its tax return preparation business.

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

An eligible electronic filing customer may also apply for a refund anticipation loan ("RAL") at an H&R Block office. Under the 1997 RAL program, Tax Services' electronic filing customers who meet certain eligibility criteria are offered the opportunity to apply for loans from Beneficial National Bank in amounts based upon the customers' anticipated Federal income tax refunds. Income tax return information is simultaneously transmitted by H&R Block to the IRS and the lending bank. Within a few days after the date of filing, a check in the amount of the loan, less the bank's transaction fee and H&R Block's tax return preparation fee and electronic filing fee, is received by the RAL customer. The IRS then directly deposits the participating customer's actual Federal income tax refund into a designated account at the bank in order for the loan to be repaid.

Tax Services also offers an electronic refund service pursuant to which an eligible electronic filing service customer's income tax refund is directly deposited into a bank account at Mellon Bank, N.A. within approximately three weeks after the tax return is electronically filed, and a check is thereafter issued to the taxpayer in the amount of the refund, less the bank's transaction fee and H&R Block's tax return preparation fee and electronic filing fee.

Tax Services and its franchisees filed approximately 7,279,000 U.S. tax returns electronically in 1997, compared to 6,298,000 in fiscal 1996. Approximately 2,573,000 refund anticipation loans were processed in 1997 by H&R Block, compared to 2,361,000 in

fiscal 1996. Approximately 1,871,300 electronic refunds were processed in fiscal 1997 by H&R Block, compared to 1,283,000 in fiscal 1996.

In 1997, H&R Block offered a service to transmit state income tax returns electronically to state tax authorities in 34 states and the District of Columbia (compared to 33 states in fiscal 1996) and plans to continue to expand this program as more states make this filing alternative available to their taxpayers.

Income Tax Courses. H&R Block offers to the public income tax return preparation courses that teach taxpayers how to prepare their own income tax returns, as well as provide Tax Services with a source of trained income tax return preparers. During the 1997 fiscal year, 125,333 students enrolled in H&R Block's basic and advanced income tax courses, compared to 123,159 students during fiscal year 1996.

Additional Products and Services. In fiscal year 1997, the "Peace of Mind" Program, whereby customers are essentially offered an extended warranty with respect to their tax returns, was offered nationwide in all Company-owned and participating franchise locations. In addition to the Company's standard guarantee to pay penalty and interest attributable to errors made by an H&R Block preparer, under the Peace of Mind Program, the Company agrees to pay additional taxes owed by the customer (for which liability would not ordinarily accrue) resulting from such errors or from revised interpretations of tax laws by the IRS. The Peace of Mind Program has a per customer cumulative limit of $4,000 ($5,000 at H&R Block Premium offices) in additional taxes paid with respect to the Federal, state and local tax returns prepared by H&R Block for the taxable year covered by the Program. The Company also offered at its offices in fiscal year 1997 the Last Will and Testament Kit and the Living Will Kit, each a simple, self-service instrument. During the 1997 tax season, Tax Services tested the origination of nonconforming mortgage loans in 31 tax offices in four states in cooperation with Block Financial Corporation (see "Financial Services," below), college financial aid services in 531 tax offices, and immigration processing services in 28 tax offices in Southern California.

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

In fiscal year 1997, H&R Block also operated 932 offices in department stores, including 799 offices in Sears, Roebuck & Co. stores operated as "Sears Income Tax Service by H&R Block." During the 1997 tax season, the Sears' facilities constituted approximately eight percent of the tax office locations of H&R Block. Tax Services is a party to a license agreement with Sears under which Tax Services will continue to operate in Sears locations throughout the United States. Such license agreement expires on December 31, 2004. Tax Services believes its relations with Sears to be excellent and that both parties to the license arrangement view the operations thereunder to date as satisfactory.

On April 15, 1997, there were 9,937 H&R Block offices in operation principally in all 50 states, the District of Columbia, Canada, Australia and Europe, compared to 9,678 offices in operation on April 15, 1996. Of the 9,937 offices, 5,215 were owned and operated by Tax Services (compared to 4,738 in fiscal year 1996) and 4,722 were owned and operated by independent franchisees (compared to 4,940 in fiscal 1996). Of such franchised offices, 3,290 were owned and operated by "satellite" franchisees of Tax Services (described below), 845 were owned and operated by "major" franchisees (described below) and 587 were owned and operated by satellite franchisees of major franchisees. In the United States alone, H&R Block operated 8,554 offices in fiscal year 1997, compared to 8,308 offices in fiscal 1996. Of the 8,554 offices, 4,483 were owned and operated by Tax Services and 4,071 were owned and operated by franchisees.

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

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

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

From time to time, Tax Services has acquired the operations of existing franchisees and competing tax return preparation businesses, and it will continue to do so if future conditions warrant such acquisitions and satisfactory terms can be negotiated. In fiscal year 1997, Tax Services acquired 251 tax offices in the United States, including 73 competitor offices and 178 H&R Block franchise offices. The largest franchise acquisition during fiscal year 1997 occurred in June 1996, when the Company acquired Bay Colony, Ltd., a major franchise operation serving central and eastern Virginia and the northeast corner of North Carolina through 145 offices and 33 satellite offices.

H&R Block International. H&R Block prepares U.S. income tax returns in other countries, Canadian tax returns in Canada, and Australian tax returns in Australia. With the commencement of tax season in the United Kingdom in April 1997, H&R Block also began offering tax return preparation services in the United Kingdom, as its tax system requires more taxpayers to calculate their own tax liabilities. On April 16, 1997, the Company purchased The Tax Team Limited, a Horsham-based firm with 12 offices throughout the United Kingdom. The Tax Team has retained its name and is opening additional offices in major markets across the United Kingdom. The Tax Team is expanding its offerings to include financial planning and accounting services.

The returns prepared at offices in countries outside of the United States constituted 15.2% of the total returns prepared by H&R Block in the last fiscal year. The Company is studying potential international markets outside of Canada, Australia and the United Kingdom and is also considering acquisition of other U.K. tax preparation and accounting companies to expand its service offerings in the United Kingdom.

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

Canadian Operations. H&R Block Canada, Inc. and its franchisees prepared approximately 2,156,000 Canadian returns filed with Revenue Canada during the 1997 income tax filing season, compared with 2,223,000 Canadian returns prepared in the previous year. The number of offices operated by H&R Block in Canada increased from 1,016 in fiscal year 1996 to 1,021 in fiscal year 1997. Of the 1,021 offices in Canada, 562 were owned and operated by H&R Block Canada, Inc. and 459 were owned and operated by franchisees.

The Company and its franchisees offer a refund discount ("CashBack") program to their customers in Canada. The procedures which H&R Block must follow in conducting the program are specified by Canadian law. In accordance with current Canadian regulations, if a customer's tax return indicates that such customer is entitled to a tax refund, a check is issued by H&R Block to the customer for an amount which is equal to the sum of (1) 85% of that portion of the anticipated refund which is less than or equal to $300 and (2) 95% of that portion of the refund in excess of $300. The customer assigns to H&R Block the full amount of the tax refund to be issued by Revenue Canada. The refund check is then sent by Revenue Canada directly to H&R Block and deposited by H&R Block in its bank account. In accordance with the law, the discount is deemed to include both the tax return preparation fee and the fee for tax refund discounting. This program is financed by short-term borrowing. The number of returns discounted under the CashBack program decreased to approximately 583,000 in fiscal year 1997 from 681,000 in fiscal year 1996. H&R Block's introduction in 1997 of more stringent eligibility requirements for refund discounting accounted for the decrease in CashBack returns.

In January 1997, H&R Block Canada, Inc. acquired Cashplan Systems Inc., a company providing check-cashing and other low-end financial services through a network of 40 offices. Operating under the name "CashPlan," the new service complements the CashBack service.

In 1997, H&R Block Canada, Inc. tested the separation of CashBack offices from regular tax return preparation offices in some parts of Canada. Twenty-five offices offered refund discounting services under the "CashBack" name without H&R Block signage.

Australian Operations. The number of returns prepared by H&R Block Limited, the Company's subsidiary in Australia, and by franchisees in Australia, increased to approximately 403,000 in fiscal year 1997 from 389,000 in fiscal year 1996. The number of offices operated by H&R Block in Australia in fiscal year 1997 was 302, compared to 297 offices operated in fiscal 1996. Of the 302 offices, 167 were owned and operated by H&R Block Limited and 135 were franchised offices. The tax season in Australia begins in July and ends in October.

Management Changes. Effective June 1, 1996, Thomas L. Zimmerman was elected President of H&R Block Tax Services, Inc. Mr. Zimmerman had been Executive Vice President of such subsidiary from May 1994 through May 1996. Ozzie Wenich was elected President, H&R Block International, effective June 1, 1996. Mr. Wenich had served as Vice President, Finance and Treasurer of the Company from October 1994 through May 1996. In addition to his responsibilities as President, H&R Block International, Mr. Wenich was elected Senior Vice President, Chief Financial Officer and Treasurer of the Company after the end of fiscal year 1997.

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

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

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

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

Someone You Can Count On
America's Largest Tax Service
Nation's Largest Tax Service

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

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

that in terms of the number of offices and tax returns electronically filed in fiscal year 1997, it is the largest provider of electronic filing services in the United States.

Government Regulation. Several countries and states have enacted, or have considered, legislation regulating commercial tax return preparers. In the United States, primary efforts toward the regulation of such preparers have historically been made at the Federal level. Federal legislation requires income tax return preparers to, among other things, set forth their signatures and identification numbers on all tax returns prepared by them, and retain for three years all tax returns prepared. Federal laws also subject income tax return preparers to accuracy-related penalties in connection with the preparation of income tax returns. Preparers may be enjoined from further acting as income tax return preparers if the preparers continuously and repeatedly engage in specified misconduct. With certain exceptions, the Internal Revenue Code also prohibits the use or disclosure by income tax return preparers of certain income tax return information without the prior written consent of the taxpayer.

The Company believes that the Federal legislation regulating commercial tax return preparers has not had and will not have a material adverse effect on its operations. In addition, no present state or foreign statutes of this nature have had a material adverse effect on the business of the Company. However, the Company cannot predict what the effect may be of the enactment of new statutes or adoption of new regulations.

The Federal government regulates the electronic filing of income tax returns in part by specifying certain criteria for individuals and businesses to participate in the government's electronic filing program for U.S. individual income tax returns. Individuals and businesses must, upon application, be accepted into the electronic filing program. Once accepted, electronic filers must comply with all publications and notices of the IRS applicable to electronic filing, provide certain information to the taxpayer, comply with advertising standards for electronic filers, and be subjected to possible monitoring by the IRS, penalties for disclosure or use of income tax return preparation and other preparer penalties, and suspension from the electronic filing program.

The Federal statutes and regulations also regulate an electronic filer's involvement in refund anticipation loans, money borrowed by a taxpayer that is based on the taxpayer's anticipated income tax refund. Electronic filers must clearly explain that the refund anticipation loan is in fact a loan, and not a substitute for or a quicker way of receiving an income tax refund. The Federal laws place restrictions on the fees that an electronic filer may charge in connection with refund anticipation loans.

States that have adopted electronic filing programs for state income tax returns have also enacted laws that regulate electronic filers. In addition, some states and localities have enacted laws and adopted regulations that regulate refund anticipation loan facilitators and/or the advertisement and offering of electronic filing and refund anticipation loans.

The Company believes that the Federal, state and local legislation regulating electronic filing and the facilitation of refund anticipation loans has not, and will not in the future, materially adversely affect its operations. However, the Company cannot predict what the effect may be of the enactment of new statutes or the adoption of new regulations pertaining to electronic filing and/or refund anticipation loans.

The Canadian government regulates the refund discounting program in Canada, as discussed under "Canadian Operations," above. These laws have not materially affected the Company.

As noted above under "Owned and Franchised Offices," many of the income tax return preparation offices operating in the world under the name "H&R Block" are operated by franchisees. Certain aspects of the franchisor/franchisee relationship have been the subject of regulation by the Federal Trade Commission and by various states. The extent of such regulation varies, but relates primarily to disclosures to be made in connection with the grant of franchises and limitations on termination by the franchisor under the franchise agreement. To date, no such regulation has materially affected the Company's business. However, the Company cannot predict what the effect may be of the enactment of new statutes or adoption of new regulations pertaining to franchising.

From time to time, and especially in election years, the subjects of tax reform, tax simplification, the restructuring of the tax system, a flat tax, a consumption tax, a value-added tax or a national sales tax surface. While each flat tax proposal and most other tax simplification proposals have fallen short of adoption, such issues received more serious attention during the 1996 election year than ever before. Historically, changes in tax laws have increased the Company's business. The immediate result of tax law changes has been an increase in complexity. The transition from the current system to a new, untested system is likely to take a number of years and, under most serious tax reform proposals, Americans will still need to file Federal and state tax returns. The Company believes that customers will still come to H&R Block for convenience, accuracy and answers to tax questions. However, if enacted, the effect of tax reform or simplification legislation on the Company's business over time is uncertain, and such legislation could have a material adverse effect on the Company's business and results of operations.

FINANCIAL SERVICES
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Generally. The businesses of Block Financial Corporation ("BFC") include: (1) the purchase of participation interests in refund anticipation loans; (2) the origination, servicing, sale and securitization of nonconforming mortgage loans; (3) credit cards; (4) financial services delivered by technology and financial service delivery technology; (5) franchise equity lines of credit; and (6) software.

In July 1996, BFC announced its agreement with Beneficial National Bank to purchase a participation interest in refund anticipation loans provided by Beneficial to H&R Block tax customers. See "Electronic Filing" under "Tax Services," above. In the 10-year agreement, BFC agreed to purchase an initial 40% participation interest in such RALs, which interest would be increased to nearly 50% in specified circumstances. BFC's purchases of the participation interests are financed through short-term borrowing. BFC bears all of the risks associated with its interests in the RALs. BFC's total RAL revenue in fiscal year 1997 was approximately $54.5 million, generating approximately $8.1 million in pretax profits.

BFC completed its first securitization of nonconforming mortgage loans during the third quarter of fiscal year 1997, recording a gain of approximately $3 million on a $102 million asset-backed security issue that closed on January 30, 1997. Such securitization resulted from BFC's development of a nonconforming mortgage origination and funding operation in which fixed and adjustable-rate mortgages, including purchase money first mortgages, refinance first mortgages and second mortgages are offered to the public. Nonconforming mortgages are those that may not be offered through government-sponsored loan agencies. Substantially all of the mortgages involved in the January 1997 securitization were mortgages offered through independent mortgage brokers.

Block Mortgage Company, L.L.C. ("Block Mortgage"), a limited liability company in which H&R Block Tax Services, Inc. owns a 99% membership interest and BFC owns a 1% membership interest, offers nonconforming mortgage loans at H&R Block tax offices. Block Mortgage is a strategic initiative involving Tax Services and BFC in which the goal is to develop a retail mortgage business. During the 1997 tax season, nonconforming mortgages were offered through 31 tax offices in Colorado, Indiana, North Carolina and Virginia. Block Mortgage plans to continue the test of this business in additional offices during fiscal year 1998.

The Company's commitment to the nonconforming mortgage business is exemplified by the purchase of Option One Mortgage Corporation following the end of fiscal year 1997. See the discussion of such acquisition in the last paragraph under "General Development of Business," above. Option One originated more than $1 billion in

mortgage loans in calendar year 1996 and provides the Company with experienced associates in the nonconforming mortgage lending business. It is intended that Option One will assist BFC and Tax Services in handling mortgage applications, loan processing and underwriting of mortgages generated through the Block Mortgage operations.

BFC's credit cards (which include Gold and Classic versions of the CompuServe Visa and WebCard(SM) Visa cards) are currently issued under a co-branding agreement between BFC and Columbus Bank and Trust Company, Columbus, Georgia. Approximately 110,000 CompuServe Visa credit cards were issued by the end of fiscal year 1997, compared to 113,425 accounts at the end of fiscal 1996. The number of WebCard Visa accounts at April 30, 1997, was 57,223, compared to approximately 6,000 accounts at the end of fiscal year 1996. The WebCard was introduced in January 1996. The aggregate portfolio for the credit cards issued by BFC increased from approximately $165 million at the end of fiscal year 1996 to more than $246 million by the end of fiscal year 1997. While the aggregate number of BFC's credit cards increased during fiscal year 1997, bad debt expense associated with such accounts also increased substantially. BFC is placing greater emphasis on collections management in fiscal year 1998.

BFC developed the CONDUCTOR(R) service, a technology that facilitates the delivery of financial services online through existing commercial online services, the Internet or directly through leased networks. CONDUCTOR features a national online electronic credit card statement that provides the cardholder with access to transaction records and credit availability and the ability to download transactions from the Internet into a personal financial software program. A similar service that allows cardholders access online is offered on CompuServe's information service. CONDUCTOR allows, or will in the future allow, subscribers to engage in online electronic bill payment, discounted brokerage and mutual fund transactions, and the review of other financial account statements.

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

BFC's software business develops and markets the Kiplinger TaxCut(R) tax preparation software package, as well as markets the Kiplinger Home Legal Advisor(SM) and Kiplinger Small Business Attorney(SM) software products. As a result of the increase in sales of TaxCut's final edition in fiscal year 1997, BFC's share of the income tax return preparation software market is now greater than 30%.

Following the end of fiscal year 1997, William P. Anderson resigned as President of BFC to become President and Chief Executive Officer of Bank Rate Monitor, effective July 1, 1997. Frank L. Salizzoni has been elected President of BFC on an interim basis.

Seasonality of Business. BFC's income tax return preparation software and RAL participation businesses are seasonal, with the substantial portion of the revenues from these businesses generated during the tax season.

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

CONDUCTOR
CONDUCTOR and Hand-Held Baton Design
CONDUCTOR CARD REVIEW
FINANCIAL FINDER
TaxCut

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

Audit Buster	NetGuard

B and Design	Small Business Attorney
Block Financial	Web
Block Financial and Design	WebAccount
CONDUCTOR and Baton Design	WebBank
CONDUCTOR.COM	WebBroker
DittoCard	WebBuyer
Download Depot	WebCard
Fast Lane	WebCheck
FINANCIAL CONDUCTOR	WebChecking
Home Legal Advisor	WebPay
Names & Dates	WebQuote

Competitive Conditions. The financial services and software businesses are highly competitive and consist of a large number of companies. In the software industry, Intuit, Inc. is a dominant supplier of personal financial software. In the other businesses in which BFC competes, no single supplier is considered to occupy a dominant position.

Government Regulation. The repayment of RALs generally depends on IRS direct deposit procedures. The IRS may from time to time change its direct deposit procedures or may determine not to make direct deposits of all or portions of a borrower's Federal income tax refund. The failure of the IRS to make direct deposits of refunds may impair the lender's ability to collect a RAL and result in a loss to BFC.

Applicable state laws generally regulate interest rates and other charges, require certain disclosure and, unless an exemption is available, require licensing of the originators of certain mortgage loans. In addition, most states have other laws, public policies and general principles of equity relating to the protection of consumers, unfair and deceptive practices, and practices that may apply to the origination, servicing and collection of mortgage loans. The mortgage loans purchased or originated by BFC and its subsidiaries are also subject to Federal laws, including, without limitation, the Federal Truth in Lending Act and Regulation Z promulgated thereunder, the Equal Credit Opportunity Act and Regulation B promulgated thereunder, the Fair Credit Reporting Act, the Real Estate Settlement Procedures Act, the Soldiers' and Sailors' Civil Relief Act of 1940, as amended, and certain other laws and regulations. Certain mortgage loans may be subject to the Riegle Community Development and Regulatory Improvement Act of 1994, which incorporates the Home Ownership and Equity Protection Act of 1994. These provisions impose additional disclosure and other requirements on creditors with respect to non-purchase money mortgage loans with high interest rates or high up-front fees and charges, can impose specific statutory liabilities upon creditors who fail to comply with their provisions, and may affect the enforceability of the related mortgage loans. Under environmental legislation and case law applicable in certain states, it is possible that liability for environmental hazards in respect of real property may be imposed on a holder of a mortgage note secured by real property.

The Company believes that Federal and state statutes and regulations regulating electronic filing, refund anticipation loans and mortgage lending have not had and will not have a material adverse effect on its operations. However, the Company cannot predict what the effect may be of the enactment of new statutes or the adoption of new regulations.

ITEM 2. PROPERTIES.

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

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

The description of the properties of CompuServe is contained in the annual report on Form 10-K of CompuServe Corporation for the fiscal year ended April 30, 1997, in the section entitled "Business and Properties," and such description is incorporated herein by reference.

ITEM 3. LEGAL PROCEEDINGS.

In June 1996, a purported shareholder class action complaint was filed against CompuServe and the Company in the Court of Common Pleas, Franklin County, Ohio, in a case entitled Greenfield v. CompuServe Corporation, et al. A second purported shareholder class action suit was filed in July 1996 against CompuServe and the Company in the United States District Court for the Southern District of Ohio in a case entitled Romine v. CompuServe Corporation, et al. A third purported shareholder class action suit was filed in August 1996 against CompuServe, the Company and the lead underwriters in CompuServe's initial public offering of its common stock in April 1996 (the "IPO") in the United States District Court for the District of Minnesota in a case entitled Acker v. CompuServe Corporation, et al. The plaintiffs in the Acker litigation voluntarily dismissed the suit and joined the plaintiffs in the Romine litigation. A fourth purported shareholder class action suit was filed in April 1997 against CompuServe, the Company and the lead underwriters in the IPO in the United States District Court for the Southern District of Ohio in a case entitled Mitelman v. CompuServe Corporation, et al. In Mitelman, plaintiffs have named the lead underwriters as defendants and as representatives of a defendant class consisting of all underwriters who, pursuant to a single underwriting agreement, participated in the IPO. The complaints in these four purported class actions also name certain current and former officers and directors of CompuServe at the time of the IPO as additional defendants. In a complaint filed in the Court of Common Pleas, Franklin County, Ohio, in March 1997, in a case entitled Florida State Board of Administration v. CompuServe Corporation, H&R Block, Inc. and H&R Block Group, Inc., the plaintiff seeks recovery of damages from the defendants relating to the IPO, but does not seek class action status. Each of the aforementioned suits alleges similar violations of the Securities Act of 1933 based on assertions of omissions and misstatements of fact in connection with CompuServe's public filings and presentations related to the IPO. The Greenfield suit also alleges similar violations of the Ohio Securities Code and common law of negligent misrepresentation. The Florida State Board of Administration suit also alleges violations of Colorado, Florida and Ohio statutes and common law of negligent misrepresentation. Relief sought in the aforementioned lawsuits is unspecified, but includes pleas for rescission and damages. In August 1996, an action for discovery was filed solely against CompuServe on behalf of a shareholder in the Court of Common Pleas, Franklin County, Ohio, in a matter entitled Schnipper v. CompuServe Corporation, seeking factual support for a possible additional claim relating to IPO disclosures. The defendants are vigorously defending these suits. The Greenfield, Romine, Acker, and Schnipper lawsuits discussed herein were reported in the Forms 10-Q for the first, second and third quarters of fiscal year 1997.

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

No matters were submitted to a vote of security holders, through the solicitation of proxies or otherwise, during the fourth quarter of the fiscal year ended April 30, 1997.

ITEM 4a. EXECUTIVE OFFICERS OF THE REGISTRANT.

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

Name and age	Office(s)
Henry W. Bloch (74)	Chairman of the Board since August 1992; Chairman of the Board and Chief Executive Officer from August 1989 through July 1992; Member of the Board of Directors since 1955.
Frank L. Salizzoni (59)	President and Chief Executive Officer since June 1996; Member of the Board of Directors since 1988. See Note 1.
Ozzie Wenich (54)	Senior Vice President, Chief Financial Officer and Treasurer since June 18, 1997; President, H&R Block International, since June 1996; Vice President, Finance and Treasurer from October 1994 through May 1996; Vice President, Corporate Controller and Treasurer from March 1994 until October 1994; Vice President and Corporate Controller from September 1985 until March 1994. See Note 2.
William P. Anderson (48)	President of Block Financial Corporation from May 1992 through June 30, 1997; Senior Vice President and Chief Financial Officer from September 1994 until September 1995; Vice President, Corporate Development and Chief Financial Officer from August 1992 until September 1994; Vice President, Corporate Development from December 1991 until August 1992; See Note 3.
Thomas L. Zimmerman (47)	President, H&R Block Tax Services, Inc., since June 1996; Executive Vice President, Field Operations, H&R Block Tax Services, Inc. from May

Name and age	Office(s)
	1994 through May 1996; Senior Vice President, Central Tax Services, H&R Block Tax Services, Inc., from April 1993 through April 1994; Vice President, Director of Central Tax Operations, H&R Block, Inc., from May 1992 through March 1993.
James H. Ingraham (43)	Vice President, Legal since October 1996; Secretary since June 1990; Assistant Vice President, Corporate Legal and Human Resources from December 1995 until October 1996; Assistant Vice President, Legal from May 1994 until December 1995; Assistant Vice President, Corporate Counsel and Secretary, H&R Block Tax Services, Inc., from

	April 1993 until May 1994; Associate Corporate Counsel from December 1990 until April 1993.
Patrick D. Petrie (38)	Vice President and Corporate Controller since October 1996; Vice President, Service Operations and Treasurer, H&R Block Tax Services, Inc., from June 1996 until October 1996; Assistant Vice President, Treasurer and Controller, H&R Block Tax Services, Inc., from July 1993 through May 1996; Assistant Vice President and Controller, H&R Block Tax Services, Inc., from April 1993 until July 1993; Assistant Controller from April 1991 until April 1993.
James D. Rose (46)	Vice President and Chief Information Officer since June 2, 1997. See Note 4.
Robert A. Weinberger (53)	Vice President, Government Relations, since March 1996. See Note 5.

Note 1: Mr. Salizzoni was President and Chief Operating Officer of USAir Group, Inc. and USAir, Inc. from March 1994 until April 1996 and Executive Vice President - Finance, USAir, Inc. from 1990 until March 1994.

Note 2: Mr. Wenich was elected Senior Vice President, Chief Financial Officer and Treasurer of the Company effective June 18, 1997, succeeding George T. Robson in such capacity. Prior to his resignation effective May 31, 1997,

Mr. Robson had been Senior Vice President and Chief Financial Officer of the Company since January 1996 and Treasurer since June 1996. Mr. Robson was Senior Vice President of Unisys Corporation from April 1991 until January 1996 and Chief Financial Officer of such corporation from 1990 until January 1996.

Note 3: On June 3, 1997, the Company announced that Mr. Anderson had resigned as President of Block Financial Corporation as of June 30, 1997.

Note 4: Mr. Rose served as Vice President, Chief Information Officer, Integon Insurance Corporation, Winston-Salem, North Carolina, from May 1996 until June 1, 1997, and as Director of Information Systems, National Association of Insurance Commissioners, Kansas City, Missouri, from November 1987 until May 1996.

Note 5: Mr. Weinberger was Director, Washington Affairs, Unilever United States, Inc., from February 1991 until April 1995.

PART II

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

The information called for by this item is contained in the Company's annual report to security holders for the fiscal year ended April 30, 1997, under the heading "Common Stock Data," and is hereby incorporated by reference. The Company's Common Stock is traded principally on the New York Stock Exchange. The Company's Common Stock is also traded on the Pacific Stock Exchange. On June 10, 1997, there were 33,053 stockholders of the Company.

ITEM 6. SELECTED FINANCIAL DATA.

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The information called for by this item is contained in the Company's annual report to security holders for the fiscal year ended April 30, 1997, under the heading "Selected Financial Data," and is hereby incorporated by reference.

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

The information called for by this item is contained in the Company's annual report to security holders for the fiscal year ended April 30, 1997, under the heading "Management's Discussion and Analysis," and is hereby incorporated by reference.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.
- --

The information called for by this item and listed at Item 14(a)1 is contained in the Company's annual report to security holders for the fiscal year ended April 30, 1997, and is hereby incorporated by reference.

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

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

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.
- --

The information called for by this item is contained in the Company's definitive proxy statement filed pursuant to Regulation 14A not later than 120 days after April 30, 1997, in the section titled "Election of Directors" and in Item 4a of Part I of this report, and is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION.
- --------------------------------

The information called for by this item is contained in the Company's definitive proxy statement filed pursuant to Regulation 14A not later than 120 days after April 30, 1997, in the sections entitled "Directors' Meetings, Compensation and Committees" and "Compensation of Executive Officers," and is incorporated herein by reference, except that information contained in the section entitled "Compensation of Executive Officers" under the subtitles "Performance Graph" and "Compensation Committee Report on Executive Compensation" is not incorporated herein by reference and is not to be deemed "filed" as part of this filing.

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

The information called for by this item is contained in the Company's definitive proxy statement filed pursuant to Regulation 14A not later than 120 days after April 30, 1997, in the section titled "Election of Directors" and in the section titled "Information Regarding Security Holders," and is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.
- --

The information called for by this item is contained in the Company's definitive proxy statement filed pursuant to Regulation 14A not later than 120 days after April 30, 1997, in the

section titled "Election of Directors," and is incorporated herein by reference.

PART IV

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

(a) 1. Financial Statements

The following consolidated financial statements of H&R Block, Inc., and subsidiaries are incorporated by reference from the Company's annual report to security holders for the fiscal year ended April 30, 1997:

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Consolidated Statements of Earnings	22
Consolidated Balance Sheets	23
Consolidated Statements of Cash Flows	24
Notes to Consolidated Financial Statements	25
Quarterly Financial Data	36
Independent Auditors' Report	38

2. Financial Statement Schedules

Independent Auditors' Report

Schedule VIII - Valuation and Qualifying Accounts

Schedules not filed herewith are either not applicable, the information is not material or the information is set forth in the financial statements or notes thereto.

3. Exhibits

3(a) Restated Articles of Incorporation of H&R Block, Inc., as amended, filed as Exhibit 3(b) to the Company's quarterly report on Form 10-Q for the quarter ended October 31, 1996, are incorporated herein by reference.

3(b) Bylaws of H&R Block, Inc., as amended, filed as Exhibit 3(b) to the Company's annual report on Form 10-K for the fiscal year ended April 30, 1995, are incorporated herein by reference.

4(a) Conformed copy of Rights Agreement dated as of July 14, 1988 between H&R Block, Inc., and Centerre Trust Company of St. Louis, filed on August 9, 1993 as Exhibit 4(c) to the Company's Registration Statement on Form S-8 (File No. 33-67170), is incorporated herein by reference.

4(b) Copy of Amendment to Rights Agreement dated as of May 9, 1990 between H&R Block, Inc. and Boatmen's Trust Company, filed as Exhibit 4(b) to the Company's annual report on Form 10-K for the fiscal year ended April 30, 1995, is incorporated by reference.

4(c) Copy of Second Amendment to Rights Agreement dated September 11, 1991 between H&R Block, Inc. and Boatmen's Trust Company, filed as Exhibit 4(c) to the Company's annual report on Form 10-K for the fiscal year ended April 30, 1995, is incorporated by reference.

4(d) Copy of Third Amendment to Rights Agreement dated May 10, 1995 between H&R Block, Inc. and Boatmen's Trust Company, filed as Exhibit 4(d) to the Company's annual report on Form 10-K for the fiscal year ended April 30, 1995, is incorporated by reference.

4(e) Form of Certificate of Designation, Preferences and Rights of Participating Preferred Stock of H&R Block, Inc., filed as Exhibit 4(e) to the Company's annual report on Form 10-K for the fiscal year ended April 30, 1995, is incorporated by reference.

4(f) Form of Certificate of Designation, Preferences and Rights of Delayed Convertible Preferred Stock of H&R Block, Inc., filed as Exhibit 4(f) to the Company's annual report on Form 10-K for the fiscal year ended April 30, 1995, is incorporated by reference.

10(a) Stock Purchase Agreement dated April 14, 1997, among Fleet Financial Group, Inc., Fleet Holding Corp., H&R Block, Inc. and Block Financial Corporation, filed on July 2, 1997 as Exhibit 2.1 to the Company's current report on Form 8-K, is incorporated herein by reference.

10(b) The Company's 1993 Long-Term Executive Compensation Plan, as amended, filed as Exhibit 10(a) to the Company's quarterly report on Form 10-Q for the quarter ended January 31, 1996, is incorporated herein by reference.

10(c) The H&R Block Long-Term Performance Program, as amended, filed as Exhibit 10(c) to the Company's annual report on Form 10-K for the fiscal year ended April 30, 1994, is incorporated herein by reference.

10(d) The H&R Block Deferred Compensation Plan for Directors, as amended, filed as Exhibit 10 to the Company's

quarterly report on Form 10-Q for the quarter ended July 31, 1994, is incorporated herein by reference.

10(e) Amendment No. 2 to H&R Block Deferred Compensation Plan for Directors, filed as Exhibit 10(c) to the Company's quarterly report on Form 10-Q for the quarter ended January 31, 1997, is incorporated herein by reference.

10(f) The H&R Block Deferred Compensation Plan for Executives, as amended (Amendments 1 through 5), filed as Exhibit 10(e) to the Company's annual report on Form 10-K for the fiscal year ended April 30, 1994, is incorporated herein by reference.

10(g) Amendment No. 6 to H&R Block Deferred Compensation Plan for Executives, filed as Exhibit 10(b) to the Company's quarterly report on Form 10-Q for the quarter ended July 31, 1995, is incorporated herein by reference.

10(h) Amendment No. 7 to H&R Block Deferred Compensation Plan for Executives, filed as Exhibit 10(a) to the Company's quarterly report on Form 10-Q for the quarter ended January 31, 1997, is incorporated herein by reference.

10(i) The H&R Block Supplemental Deferred Compensation Plan for Executives, filed as Exhibit 10(f) to the Company's annual report on Form 10-K for the fiscal year ended April 30, 1994, is incorporated herein by reference.

10(j) Amendment No. 1 to H&R Block Supplemental Deferred Compensation Plan for Executives, filed as Exhibit 10(a) to the Company's quarterly report on Form 10-Q for the quarter ended October 31, 1994, is incorporated herein by reference.

10(k) Amendment No. 2 to H&R Block Supplemental Deferred Compensation Plan for Executives, filed as Exhibit 10(c) to the Company's quarterly report on Form 10-Q for the quarter ended July 31, 1995, is incorporated herein by reference.

10(l) Amendment No. 3 to H&R Block Supplemental Deferred Compensation Plan for Executives, filed as Exhibit 10(b) to the Company's quarterly report on Form 10-Q for the quarter ended January 31, 1997, is incorporated herein by reference.

10(m) The H&R Block Short-Term Incentive Plan, filed as Exhibit 10(a) to the Company's quarterly report on

Form 10-Q for the quarter ended October 31, 1996, is incorporated herein by reference.

10(n) The Amended and Restated H&R Block, Inc. Retirement Plan for Non-Employee Directors, filed as Exhibit 10(h) to the Company's annual report on Form 10-K for the fiscal year ended April 30, 1995, is incorporated herein by reference.

10(o) The Company's 1989 Stock Option Plan for Outside Directors, as amended.

10(p) Employment Agreement dated October 11, 1996, between the Company and Frank L. Salizzoni, filed as Exhibit 10(b) to the Company's quarterly report on Form 10-Q for the quarter ended October 31, 1996, is incorporated herein by reference.

11 Statement re Computation of Per Share Earnings.

13 That portion of the annual report to security holders for the fiscal year ended April 30, 1997 which are expressly incorporated by reference in this filing.

21 Subsidiaries of the Company.

23 The consent of Deloitte & Touche LLP, Certified Public Accountants, is located immediately after the signature pages contained in this filing.

27 Financial Data Schedule.

(b) Reports on Form 8-K.

The registrant filed a Current Report on Form 8-K on April 22, 1997, reporting as an "Other Event" the registrant's issuance of a press release announcing the agreement of Block Financial Corporation to purchase all of the stock of Option One Mortgage Corporation. The press release was included as Exhibit 99.1 to the Form 8-K. No financial statements were filed as a part of the Form 8-K. Except for the Form 8-K filed on April 22, 1997, the registrant did not file any reports on Form 8-K during the fourth quarter of the year ended April 30, 1997.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

H&R BLOCK, INC.

June 18, 1997 By /s/ Frank L. Salizzoni

Frank L. Salizzoni, President and Chief Executive Officer

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

Signature	Title
/s/ Frank L. Salizzoni Frank L. Salizzoni	President, Chief Executive Officer and Director (principal executive officer)
/s/ G. Kenneth Baum G. Kenneth Baum	Director
/s/ Henry W. Bloch Henry W. Bloch	Director
/s/ Robert E. Davis Robert E. Davis	Director
Donna R. Ecton	Director
/s/ Henry F. Frigon Henry F. Frigon	Director
/s/ Roger W. Hale Roger W. Hale	Director
/s/ Marvin L. Rich Marvin L. Rich	Director
/s/ Morton I. Sosland	Director

Morton I. Sosland

(Signed as to each on June 18, 1997)

Signature	Title
/s/ Ozzie Wenich - ---------------------------------- Ozzie Wenich	Senior Vice President, Chief Financial Officer and Treasurer (principal financial officer)
/s/ Patrick D. Petrie - ---------------------------------- Patrick D. Petrie	Vice President and Corporate Controller (principal accounting officer)

(Signed as to each on June 18, 1997)

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in Post-Effective Amendment No. 4 to Registration Statement No. 33-185 of H&R Block, Inc. and subsidiaries (relating to shares of Common Stock issued under the 1984 Long-Term Executive Compensation Plan) on Form S-8, Registration Statement No. 33-33889 of H&R Block, Inc. and subsidiaries (relating to shares of Common Stock issuable under the 1989 Stock Option Plan for Outside Directors) on Form S-8, Registration Statement No. 33-54985 of H&R Block, Inc. and subsidiaries (relating to shares of Common Stock issued under the 1993 Long-Term Executive Compensation Plan) on Form S-8, Registration Statement No. 33-64147 of H&R Block, Inc. and subsidiaries (relating to shares of Delayed Convertible Preferred Stock issuable under the Spry, Inc. 1995 Stock Option Plan) on Form S-8, and Registration Statement No. 333-09577 of H&R Block, Inc. and subsidiaries (relating to shares of Common Stock issuable under the Third Stock Option Plan for Seasonal Employees) on Form S-8 of our reports dated June 17, 1997, appearing in and incorporated by reference in this Annual Report on Form 10-K of H&R Block, Inc. and subsidiaries for the year ended April 30, 1997.

/s/Deloitte & Touche LLP
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Kansas City, Missouri
July 28, 1997

INDEPENDENT AUDITORS' REPORT

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

We have audited the consolidated financial statements of H&R Block, Inc. and subsidiaries as of April 30, 1997 and 1996 and for each of the three years in the period ended April 30, 1997, and have issued our report thereon dated June 17, 1997; such consolidated financial statements and report are included in your 1997 Annual Report to Stockholders and are incorporated herein by reference. Our audits also included the financial statement schedule of H&R Block, Inc. and subsidiaries, listed in Item 14(a)(2). This financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion based on our audits. In our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ Deloitte & Touche LLP
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Kansas City, Missouri
June 17, 1997

H&R BLOCK, INC.
AND SUBSIDIARIES

SCHEDULE VIII - VALUATION AND QUALIFYING ACCOUNTS

YEARS ENDED APRIL 30, 1997, 1996 AND 1995

		Additions			
Description	Balance Beginning of Period	Charged to Costs and Expenses	Charged to Other	Deductions	Balance at End of Period
Allowance for Doubtful Accounts-deducted from accounts receivable in the balance sheet					
1997	$ 7,848,000	$90,134,000	$ -	$62,964,000	$35,018,000
1996	$ 7,274,000	$31,766,000	$ -	$31,192,000	$ 7,848,000

1995	$12,744,000	$13,619,000	$ -	$19,089,000	$ 7,274,000
	===========	===========	========	===========	===========

EXHIBIT 10(O)

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.

(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.

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 2,000 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.

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.

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, 1999, 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.

Exhibit 11

CALCULATION OF PRIMARY EARNINGS PER SHARE

	Year Ended April 30,		
	1997	1996	1995
Net earnings	$ 47,755,000	$177,168,000	$107,259,000
Weighted average number of shares outstanding - primary: Weighted average number of common shares outstanding	103,985,000	103,926,000	105,029,000
Dilutive effect of stock options after application of treasury stock method	230,000	524,000	708,000
Dilutive effect of Convertible Preferred Stock	1,625,000	1,609,000	134,000
Weighted average number of shares outstanding	105,840,000	106,059,000	105,871,000
Net earnings per share:			
Primary	$.45	$1.67	$1.01

Exhibit 11

CALCULATION OF FULLY DILUTED EARNINGS PER SHARE

	Year Ended April 30,		
	1997	1996	1995

Net earnings	$ 47,755,000	$177,168,000	$107,259,000
Weighted average number of shares outstanding - fully diluted: Shares used in calculating primary earnings per share	105,840,000	106,059,000	105,871,000
Additional effect of stock options after application of treasury stock method	32,000	-	155,000
Weighted average number of shares outstanding	105,872,000	106,059,000	106,026,000
Net earnings per share:			
Fully diluted	$.45	$1.67	$1.01

COMMON STOCK DATA

	Stock Price High	Stock Price Low	Cash Dividend Paid per Share
1996 Fiscal-Year:			
Quarter ended 7/31/95	42 5/8	34 1/2	.31 1/4
Quarter ended 10/31/95	43	36 1/8	.32
Quarter ended 1/31/96	48 7/8	31 1/2	.32
Quarter ended 4/30/96	42 1/8	32 5/8	.32
1997 Fiscal-Year:			
Quarter ended 7/31/96	36 3/8	23 5/8	.32
Quarter ended 10/31/96	30 1/8	23 5/8	.32
Quarter ended 1/31/97	32 3/4	24 3/4	.20
Quarter ended 4/30/97	33	28 5/8	.20

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

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SELECTED FINANCIAL DATA
In thousands, except per share amounts and number of shareholders

	Year Ended April 30 1997	1996	1995	1994	1993
FOR THE YEAR:					
Total revenues	$1,929,663	$1,656,184	$1,333,819	$1,223,421	$1,059,225
Net earnings from continuing operations before change for purchased research and development	$ 47,755	$ 177,168	$ 190,767	$ 189,067	$ 171,017
Net earnings from continuing operations (1)	$ 47,755	$ 177,168	$ 107,259	$ 163,995	$ 171,017
Net earnings (1)	$ 47,755	$ 177,168	$ 107,259	$ 200,528	$ 180,705
AT YEAR END:					
Total assets	$1,906,258	$1,755,891	$1,097,313	$1,093,245	$1,017,601
Cash, cash equivalents and marketable securities	$ 701,100	$ 745,693	$ 444,981	$ 620,091	$ 439,526
Stockholders' equity	$ 999,097	$1,039,593	$ 685,865	$ 707,875	$ 650,488
Shares outstanding	104,056	103,417	104,863	106,149	106,355
Number of shareholders	33,517	35,634	38,053	35,514	33,457
MEASUREMENTS:					
Per share of common stock:					
Net earnings from continuing operations before charge for purchased research and development	$ .45	$ 1.67	$ 1.80	$ 1.77	$ 1.59
Net earnings from continuing operations (1)	$ .45	$ 1.67	$ 1.01	$ 1.54	$ 1.59
Net earnings (1)	$ .45	$ 1.67	$ 1.01	$ 1.88	$ 1.68
Cash dividends declared	$ 1.04	$ 1.27-1/4	$ 1.21-3/4	$ 1.09	$ .97
Net tangible book value	$ 8.83	$ 9.46	$ 5.79	$ 6.03	$ 4.93
Return on total revenues (2)	2.5%	10.7%	14.3%	15.5%	16.1
Return on beginning					

stockholders' equity	4.6%	25.8%	15.2%	30.8%	29.4%

(1) Fiscal 1995 and 1994 include charges to earnings of $83,508 ($.79 per share) and $25,072 ($.24 per share), respectively, for purchased research and development in connection with acquisitions which are not deductible for income tax purposes.

(2) Before charge for purchased research and development.

MANAGEMENT'S DISCUSSION AND ANALYSIS

RESULTS OF OPERATIONS

SIGNIFICANT EVENTS IN FISCAL 1997

The Company, through its wholly owned subsidiary, Block Financial Corporation ("BFC"), is party to a 10-year agreement with Beneficial National Bank which enables it to purchase a participation interest in Refund Anticipation Loans ("RALs") made to clients in its tax offices. RALs are loans expected to be retired by income tax refunds. During 1997, the Company held a participation interest of 40% in RALs made, which generated $54.5 million in revenues and $8.1 million in operating earnings. Over the term of the agreement, the Company may increase its participation in the RAL program up to nearly 50%.

CompuServe Corporation ("CompuServe"), a wholly owned subsidiary of the Company, recorded pretax charges totaling $34.8 million during the year. Of the total, $17.7 million related to the potential sale or other disposition of certain assets and business operations of a corporate computer software group; the consolidation of certain U.S.-based staff functions and office facilities; the renegotiation of certain third-party customer service agreements; and the write-off of certain obsolete software costs for billing and customer service systems. An additional $9.2 million related to further consolidation of Columbus-area office facilities and the sale or write-down of certain equity investments in providers of content and technologies. The remaining $7.9 million was due to the withdrawl of the WOW! online service from the marketplace as of January 31, 1997.

CompuServe also changed its rate of amortization of capitalized subscriber acquisition costs from a period of 24 months, with 60% amortized in the first 12 months, to a rate which more closely correlates with recent trends in subscriber retention rates and member net revenues. The new rate of amortization is 50% in the first three months, 30% in the next nine months, and 20% in the subsequent year. In conjunction with this change, the Company accelerated amortization of previously deferred CompuServe Interactive Service ("CSi") subscriber acquisition costs of $34.5 million. Additionally, all previously deferred subscriber acquisition costs for WOW! and SPRYNET, totaling $10.8 million, were written off due to the costs to service these high usage, flat priced services.

On April 14, 1997, the Company signed a definitive agreement to acquire Option One Mortgage Corporation ("Option One"), a California-based originator of nonconforming mortgage loans, for a cash purchase price equal to $190 million plus adjusted stockholder's equity of Option One on the closing date. The acquisition, which will be accounted for as a purchase, was completed on June 17, 1997, subject to post-closing adjustments.

SIGNIFICANT EVENTS IN FISCAL 1996

On April 19, 1996, CompuServe effected an initial public offering of 18,400,000 shares of its common stock at $30.00 per share (the "IPO"), which reduced the Company's ownership in CompuServe to just over 80%. The Company did not recognize a gain on this transaction. Additional paid-in capital was increased by the change in the Company's proportionate share of CompuServe's equity as a result of the initial public offering, from which the net proceeds to CompuServe were $518.8 million.

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

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

In connection with the adoption of Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for

Long-Lived Assets to Be Disposed Of," the Company recognized an impairment loss of $8.4 million, representing the amount by which the carrying value of the tax preparation software assets at BFC, including goodwill, exceeded the estimated fair value of those assets. The impairment loss is included in other expenses in the consolidated statements of earnings for the year ended April 30, 1996.

NEW ACCOUNTING STANDARDS

In February 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 128, "Earnings per Share" ("SFAS 128"), effective for periods ending after December 15, 1997. SFAS 128 requires the disclosure of basic earnings per share and diluted earnings per share on the face of the income statement, and a

reconciliation of the numerator and denominator of the basic earnings per share computation to the numerator and denominator of the diluted earnings per share computation in the notes to the financial statements. The Company will fully adopt the provisions of SFAS 128 beginning with the quarter ending January 31, 1998. The adoption of SFAS 128 will not have a material effect on reported net earnings per share as presented herein.

1997 COMPARED TO 1996

CONSOLIDATED RESULTS

Revenues increased 16.5% to a record $1.930 billion compared to $1.656 billion in 1996. Net earnings decreased 73.0% to $47.8 million from $177.2 million in the prior year. Net earnings per share decreased to $.45 from $1.67 in 1996. Net earnings were negatively impacted by a $186.5 million pretax loss reported by CompuServe, of which the Company owns 80.1%. CompuServe's pretax loss includes $80.1 million in nonrecurring charges and accelerated amortization of subscriber acquisition costs, described above. Excluding CompuServe's results, the Company's revenues increased 25.9% to $1.097 billion from $871.5 million last year. Net earnings exclusive of CompuServe increased 14.9% to $143.8 million from $125.1 million in 1996.

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

TAX SERVICES

Revenues increased 19.5% to $993.9 million from $831.5 million in the prior year. Tax preparation fees increased $122.0 million, or 21.3%, as a result of a 7.1% increase in the number of returns prepared by company-owned offices, with the remainder attributable to price increases and a change in the complexity of returns prepared which results in higher fees. In the United States, fees from electronic filing were up $26.9 million, or 23.7%, due primarily to an increase in the number of U.S. Federal and state returns filed electronically by 15.7% and 29.2%, respectively. Royalties increased by $11.2 million, or 11.6%, reflecting improved results reported by franchises as a result of greater revenues from electronic filing, a 5.4% increase in the number of returns prepared by franchises and increases in pricing.

Operating earnings increased 11.5% to $217.1 million from $194.8 million in 1996. The pretax margin was 21.8% compared to 23.4% in the prior year. The decline in margin resulted from increased bad debt associated with electronic filing, marketing expenses targeted at gaining new customers and costs connected with the implementation of a new, computerized bookkeeping and management reporting system.

COMPUTER SERVICES

Revenues increased 6.2% to $841.9 million from $792.7 million last year due to an increase in Network Services revenues. Network Services revenues increased 29.6% to $257.6 million from $198.8 million in 1996 due to an increase in the number of network customers and increased usage by existing customers. The number of network customers increased 24.2% over last year to 1,200. Interactive Services revenues decreased .9% to $556.6 million from $561.4 million in the prior year primarily as a result of decreased usage by subscribers. This decrease in usage was partially offset by an increase in revenues earned from base monthly fees due to a larger average subscriber base during 1997 as compared to 1996. The average number of CSi subscribers during 1997, exclusive of the Japanese licensee, increased 8.4% to 2.97 million from 2.74 million in 1996. The average monthly CSi revenue per subscriber decreased to $14.90 from $17.01 in 1996, primarily due to a new pricing structure introduced in September 1995.

The operating loss was $196.4 million this year, compared to operating earnings of $87.3 million in 1996. Fiscal 1997 includes special pretax charges of $34.8 million and accelerated amortization of deferred subscriber acquisition costs of $45.3 million, described above. Exclusive of these amounts, the operating loss for the year was $116.2 million. Costs directly associated with revenues increased $158.7 million, or 41.0%, due to lower revenues per member in 1997 and increased data communication costs, particularly with respect to the expansion and upgrade of the European network. Additionally, customer service costs and costs associated with uncollected fees increased significantly from 1996. Depreciation and amortization expense increased $39.2 million, or 52.5%, reflecting the capital expenditures made to increase network capacity and upgrade service in the U.S. and Europe in 1996.

FINANCIAL SERVICES
Revenues increased 204.1% to $110.8 million from $36.4 million in 1996. The increase is largely due to the Company's participation in the RAL program, which contributed revenues of $54.5 million. Additionally, revenues from mortgage-related operations, which are new this year, amounted to $8.7 million, including a gain

recognized on the Company's first securitization of nonconforming mortgage loans, which approximated $3 million.

Operating earnings were $7.1 million compared to a loss of $7.4 million in the prior year. Exclusive of an impairment loss of $8.4 million recognized on the tax preparation software business assets in 1996, operating earnings for 1996 were $1.0 million. This improvement in operating earnings is mainly due to RAL program participation, which contributed pretax earnings of $8.1 million, and the securitization gain of approximately $3 million.

INVESTMENT INCOME, NET
Net investment income increased 130.5% to $20.7 million from $9.0 million in 1996. More funds were available for investment this year, largely due to the cash proceeds of $518.8 million from CompuServe's IPO in April 1996. Additionally, the Company incurred $2.0 million of interest expense on corporate borrowings in 1996, as compared to $.2 million in 1997.

UNALLOCATED CORPORATE AND ADMINISTRATIVE
The unallocated corporate and administrative pretax loss decreased 8.2% to $10.0 million compared to $10.9 million in 1996. The improvement was due to an increase in the cash values of corporate-owned whole-life insurance contracts used to informally fund deferred compensation plans. The Company also favorably adjusted its liability for certain insurance contingencies based upon actuarial valuations.

INCOME TAX EXPENSE
The effective tax rate was 37.9% for fiscal 1997 and 1996.

1996 COMPARED TO 1995
CONSOLIDATED RESULTS
Revenues increased 24.2% to a record $1.656 billion compared to $1.334 billion in 1995. Net earnings increased 65.2% to $177.2 million from $107.3 million in the prior year. Net earnings per share increased to $1.67 from $1.01 in 1995. Exclusive of the charge for purchased research and development in 1995 associated with the acquisition of SPRY of $83.5 million, net earnings per share decreased to $1.67 in 1996 from $1.80 in 1995.

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

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

Operating earnings increased 31.8% to $194.8 million from $147.7 million in 1995. The pretax margin was 23.4% compared to 20.2% in the prior year. The margin improvement was primarily due to certain payroll and occupancy and equipment expenses which did not increase proportionately with revenues, and management efforts to contain normal operating expenses. Additionally, certain expenses were incurred in 1995 associated with the elimination of the Direct Deposit Indicator ("DDI") by the Internal Revenue Service ("IRS"). Previously, the IRS used the DDI to notify the electronic filer after receiving the taxpayer's electronically filed tax return that the direct deposit of the refund would be honored.

COMPUTER SERVICES

Revenues increased 36.7% to $792.7 million from $580.0 million last year due to increases in both Interactive Services and Network Services revenues. Interactive Services revenues increased 41.8% over the prior year primarily as a result of an increase in the number of subscribers. The number of CSi subscribers at April 30, 1996, exclusive of the Japanese licensee, increased 43.9% to 3.16 million. This increase was offset by an 11.3% decrease in average monthly CSi revenue per subscriber to $17.01 for 1996 from $19.17 for 1995, caused by a price reduction implemented in February 1995 and a new pricing structure introduced in September 1995. Network Services revenues increased 34.6% to $198.8 million from $147.7 million in 1995 due to an increase in the number of network customers and increased usage by existing customers. The number of network customers increased 30.0% over last year to 966.

Operating earnings decreased 40.7% to $87.3 million from $147.3 million in 1995. The decrease in operating earnings resulted from several factors. Costs directly associated with service revenues increased $156.3 million, or

67.6%, as a result of online subscriber hours more than doubling from 50.3 million hours in 1995 to 123.0 million hours in 1996. Marketing expenses increased $70.4 million, or 67.1%, due to increased general consumer advertising on television and in periodicals, expanded international marketing efforts, the launch of WOW! and special event promotions, and advertising expenses incurred by SPRY. Depreciation and amortization expense increased $36.0 million, or 84.5%, as a result of increased capital expenditures and the amortization of goodwill related to the April 1995 SPRY acquisition. Product development costs increased $9.4 million, or 49.5%, due primarily to the acquisition of SPRY, costs related to the new WOW! online service and enhancements to the CSi interface. The pretax margin was 11.0% compared to 25.4% in the prior year.

FINANCIAL SERVICES

Revenues increased 1.5% to $36.4 million from $35.9 million in 1995. Excluding MECA's revenues in 1995, revenues increased $10.6 million, or 41.1%, over the prior year. Credit card revenues were up $10.9 million, or 79.3%, primarily due to an increase in the number of accounts and related revolving balances.

The operating loss was $7.4 million, compared to a loss of $5.8 million in the prior year. Exclusive of an impairment loss of $8.4 million recognized on the tax preparation software business assets in 1996, and MECA's operating loss in 1995, pretax earnings for 1996 were $1.0 million compared to a pretax loss of $3.4 million in 1995. The improvement over 1995 is attributable to both credit card and personal tax software operations.

INVESTMENT INCOME, NET

Net investment income declined 62.1% to $9.0 million from $23.7 million in 1995, which is attributable to several factors. Fewer funds were available for investment in 1996 due to strategic investments made in CompuServe, described previously. Additionally, the Company incurred $2.0 million in interest expense on corporate borrowings in 1996, and investment income in 1995 included gains of $4.9 million from the sale of securities during the fourth quarter.

UNALLOCATED CORPORATE AND ADMINISTRATIVE

The unallocated corporate and administrative pretax loss decreased 11.3% to $10.9 million compared to $12.3 million in 1995, primarily due to a write-up in the CompuServe investment as a result of the IPO.

INCOME TAX EXPENSE

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

LIQUIDITY AND CAPITAL RESOURCES

The Company's financial position remains strong, with cash and marketable securities of $701.1 million at April 30, 1997, compared to $745.7 million at the end of 1996. Stockholders' equity at April 30, 1997 and 1996 was $999.1 million and $1,039.6 million, respectively.

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

CompuServe also maintained a $25 million line of credit to fulfill short-term cash requirements. This line expired in June 1997.

From January through April each year, the Company uses Canadian borrowings to purchase refunds due its clients from Revenue Canada. Maturities of these borrowings range from 30 to 90 days. Net accounts receivable at April 30, 1997 and 1996 include amounts due from Revenue Canada of $5.4 million and $11.5 million, respectively.

BFC incurs short-term borrowings throughout the year to fund receivables associated with its credit card, nonconforming mortgage loan and other financial services programs. During January through April in 1997, BFC used short-term borrowings to purchase a participation interest of 40% in certain RALs through its agreement with Beneficial National Bank, described above. In December 1996, BFC obtained a one-year, $1.25 billion backup credit facility to support its various financial activities. This facility reduced to $400 million on April 30, 1997, and, subsequent to year end, was increased to $1 billion through the end of its term. Outstanding commercial paper related to credit card receivables and loans held for sale amounted to $269.6 million and $72.7 million, respectively, at April 30, 1997 and 1996. Credit cards receivables amounted to $247.9 million and $166.0 million at April 30, 1997 and 1996, respectively, and loans held for sale totaled $107.1 million and $8.7 million, respectively.

The Company completed its first securitization of nonconforming mortgage loans in January 1997, recognizing a gain of approximately $3 million on the

transaction, and, in anticipation of future securitizations, continues to purchase such loans utilizing its commercial paper program. As part of its risk management strategy prior to securitization, the Company hedges interest rate risk related to its mortgage portfolio by utilizing treasury rate guarantees. The Company purchases treasury rate guarantees from certain broker-dealer counterparties. The Company's policy is to utilize such treasury rate guarantees only for the purpose of offsetting or reducing the risk of loss associated with a defined or quantified exposure. As a matter of practice, the Company limits the counterparties to major banks and financial institutions.

CompuServe, of which the Company owns just over 80%, plans to spend approximately $100 million for subscriber acquisition and marketing and up to $100 million in capital investments in 1998. Management also anticipates capital expenditures of approximately $50 million in 1998 related to its Tax Services and Financial Services groups, exclusive of competitor and franchise acquisitions.

The Company will continue to use short-term financing in the United States to finance various financial activities conducted by BFC, including the funding of loan originations by Option One, and in Canada to finance the Canadian refund discount program. In addition, management anticipates that short-term borrowing will be used in December through February each year to finance seasonal working capital needs related to the tax business and the January shareholder dividend payment. Management believes that its CompuServe subsidiary will be able to meet its presently anticipated funding requirements with the remaining proceeds from the IPO, coupled with an expected payment in the second quarter of fiscal 1998 from the Company for the tax benefits derived by the Company from CompuServe's operating losses. Such payment would be made in accordance with the Tax Sharing Agreement between the Company and CompuServe. To ultimately finance the acquisition of Option One, the Company intends to issue medium-term notes in the second quarter of fiscal 1998.

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 on the open market over a two-year period following the ultimate separation of CompuServe. Such authorization is in addition to the 1993 authorization.

CONSOLIDATED STATEMENTS OF EARNINGS
Amounts in thousands, except per share amounts

Year Ended April 30

	1997	1996	1995
REVENUES:			
Service revenues	$1,805,711	$1,543,104	$1,233,815
Royalties	110,519	99,717	92,436
Other income	13,433	13,363	7,568
	1,929,663	1,656,184	1,333,819
EXPENSES:			
Employee compensation and benefits	604,336	517,727	442,504
Occupancy and equipment	583,420	402,835	295,528
Marketing and advertising	239,255	113,204	84,905
Supplies, freight and postage	69,929	95,621	71,542
Other	414,897	262,942	162,335
Purchased research and development	--	--	83,508
	1,911,837	1,392,329	1,140,322
Operating earnings	17,826	263,855	193,497
OTHER INCOME:			
Investment income, net	20,730	8,994	23,703
Other, net	--	12,445	2,796
	20,730	21,439	26,499
Earnings before income taxes and minority interest	38,556	285,294	219,996
Taxes on earnings	14,613	108,126	112,737
Net earnings before minority interest	23,943	177,168	107,259
Minority interest in consolidated subsidiary	(23,812)	--	--
NET EARNINGS	$ 47,755	$ 177,168	$ 107,259
Net earnings per share	$.45	$1.67	$1.01

See notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEETS
Amounts in thousands, except share data

	April 30 1997	1996
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 595,851	$ 685,660
Marketable securities	84,362	42,952
Receivables, less allowance for doubtful accounts of $35,018 and $7,848	525,777	333,734
Prepaid expenses and other current assets	64,008	59,912
Total current assets	1,269,998	1,122,258
INVESTMENTS AND OTHER ASSETS:		
Investments in marketable securities	20,887	17,081
Excess of cost over fair value of net tangible assets acquired, less accumulated amortization of $30,431 and $27,825	80,133	61,141
Deferred subscriber acquisition costs, net of amortization	43,959	96,636
Other	71,003	59,201

	215,982	234,059
PROPERTY AND EQUIPMENT, at cost less accumulated depreciation and amortization of $432,195 and $315,195	420,278	399,574
	$1,906,258	$1,755,891

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES:		
Notes payable	$ 269,619	$ 72,651
Accounts payable, accrued expenses and deposits	193,628	201,320
Accrued salaries, wages and payroll taxes	120,709	109,870
Accrued taxes on earnings	129,186	94,406
Total current liabilities	713,142	478,247
DEFERRED INCOME TAXES	25,750	46,700
OTHER NONCURRENT LIABILITIES	38,952	38,222
COMMITMENTS AND CONTINGENCIES	--	--
MINORITY INTEREST	129,317	153,129
STOCKHOLDERS' EQUITY:		
Common stock, no par, stated value $.01 per share: authorized 400,000,000 shares	1,089	1,089
Convertible preferred stock, no par, stated value $.01 per share: authorized 500,000 shares	4	4
Additional paid-in capital	502,308	504,694
Retained earnings	684,071	747,212
	1,187,472	1,252,999
Less cost of common stock in treasury	188,375	213,406
	999,097	1,039,593
	$1,906,258	$1,755,891

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
Amounts in thousands

	Year Ended April 30		
	1997	1996	1995
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net earnings	$ 47,755	$ 177,168	$ 107,259
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	166,811	111,240	67,684
Amortization of deferred subscriber acquisition costs	120,836	22,585	--
Deferred subscriber acquisition costs	(68,159)	(119,221)	--
Provision for deferred taxes on earnings	(13,968)	52,639)	(734)
Gain on sale of subsidiaries	--	(12,445)	(2,796)
Purchased research and development	--	--	83,508
Noncash, nonrecurring charges	17,565	--	--
Net gain on sales of marketable securities	(454)	(1,134)	(6,664)
Other noncurrent liabilities	730	4,760	2,845
Minority interest	(23,812)	--	--
Changes in assets and liabilities:			
Receivables	(93,802)	(70,621)	(87,995)
Mortgage loans held for sale:			
Originations and purchases	(211,700)	(8,674)	--
Sales and principal repayments	113,259	--	--
Prepaid expenses and other current assets	(13,888)	(25,373)	(1,735)
Accounts payable, accrued expenses and deposits	(8,736)	58,247	(24,994)
Accrued salaries, wages and payroll taxes	10,839	39,127	15,722
Accrued taxes on earnings	34,698	(17,554)	(27,737)
Net cash provided by operating activities	77,974	210,744	124,363

CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of marketable securities	(220,677)	(162,544)	(1,904,653)
Maturities of marketable securities	152,302	304,724	1,837,584
Sales of marketable securities	23,852	155,170	299,702
Purchases of property and equipment, net	(164,500)	(264,491)	(123,337)
Excess of cost over fair value of net tangible assets acquired, net of cash acquired	(27,068)	(18,675)	(47,773)
Proceeds from sale of subsidiaries	--	35,000	5,195
Other, net	(24,111)	(16,577)	(5,856)
Net cash provided by (used in) investing activities	(260,202)	32,607	60,862
CASH FLOWS FROM FINANCING ACTIVITIES:			
Repayments of notes payable	(5,041,386)	(2,252,761)	(1,856,873)
Proceeds from issuance of notes payable	5,238,354	2,275,991	1,906,294
Net proceeds from sale of stock by subsidiary	--	518,819	--
Dividends paid	(107,988)	(131,263)	(128,838)
Payments to acquire treasury shares	--	(71,897)	(114,900)
Proceeds from stock options exercised	3,439	13,172	57,997
Net cash provided by (used in) financing activities	92,419	352,061	(136,320)
Net increase (decrease) in cash and cash equivalents	(89,809)	595,412	48,905
Cash and cash equivalents at beginning of the year	685,660	90,248	41,343
Cash and cash equivalents at end of the year	$ 595,851	$ 685,660	$ 90,248
SUPPLEMENTAL CASH FLOW DISCLOSURES:			
Income taxes paid (received)	$ (8,047)	$ 73,041	$ 141,062
Interest paid	10,889	5,898	4,064

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Dollars in thousands, except share data

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

Marketable securities: Marketable debt and equity securities are classified as available-for-sale securities, and are carried at market value, based on quoted prices, with unrealized gains and losses included in stockholders' equity.

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

Receivables: Receivables consist primarily of credit card loans and mortgage loans held for sale. Mortgage loans held for sale are carried at the lower of cost or market value. The allowance for doubtful accounts represents an amount considered by management to be adequate to cover potential credit losses.

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

Deferred subscriber acquisition costs: Effective May 1, 1995, the Company changed its method of accounting for direct response advertising costs to conform with the American Institute of Certified Public Accountants Statement of Position 93-7, "Reporting on Advertising Costs." Under this accounting method, direct response advertising costs that meet certain criteria are capitalized and amortized on a cost-pool-by-cost-pool basis over the period during which the future benefits are expected to be received. Subscriber acquisition costs consist principally of direct mail costs, including mailing lists, postage, related payroll and outsourcing costs, payments to OEMs, and disk and CD-ROM costs, all of which result in a direct revenue-generating response. The net effect of the change in accounting increased assets by $96,636 at April 30, 1996, and increased net earnings by $60,011 and net earnings per share by $.57 for the year ended April 30, 1996. The Company expenses advertising costs not classified as direct response the first time the advertising takes place.

In October 1996, the Company changed its rate of amortization of subscriber acquisition costs from a period of 24 months, with 60% amortized in the first 12 months, to a rate which more closely correlates with recent trends in subscriber retention rates and member net revenues. The new rate of amortization is 50% in the first three months, 30% in the next nine months, and 20% in the subsequent year. In conjunction with this change, the Company accelerated amortization of previously deferred CompuServe Interactive Service ("CSi") subscriber acquisition costs of $34,500. Additionally, all previously deferred subscriber acquisition costs for WOW! and SPRYNET, totaling $8,321 and $2,560, respectively, were written off due to the costs to service these high usage, flat priced services. The WOW! service was withdrawn from the marketplace as of January 31, 1997. All future subscriber acquisition costs for SPRYNET will be expensed as incurred. The total adjustment of $45,381 to subscriber acquisition costs ($22,383 after taxes, or $.21 per share) is included in marketing expenses in the consolidated statements of earnings for the year ended April 30, 1997.

Excess of cost over fair value of net tangible assets acquired: The excess of cost of purchased subsidiaries, operating offices and franchises over the fair value of net tangible assets acquired is being amortized over an average life of 20 years on a straight-line basis.

At each balance sheet date, a determination is made by management to ascertain whether intangibles have been

impaired based on several criteria, including, but not limited to, revenue trends, undiscounted operating cash flows and other operating factors.

In connection with the adoption of Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," the Company reviewed the assets and related goodwill of its personal tax preparation software business for impairment. As a result, the Company recognized an impairment loss of $8,389, which is included in other expenses in the consolidated statements of earnings for the year ended April 30, 1996. The impairment loss represents the amount by which the carrying value of the tax preparation software business assets, including goodwill, exceeded the estimated fair value of those assets. The estimated fair value was determined as the present value of estimated expected future cash flows using a discount rate appropriate for the risks associated with the personal software industry.

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

Notes payable: The Company uses short-term borrowings to finance temporary liquidity needs and various financial activities conducted by its subsidiaries. The weighted average interest rates of notes payable at April 30, 1997 and 1996 were 5.7% and 5.4%, respectively.

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

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

The Company has entered into a Tax Sharing Agreement with CompuServe, pursuant to which CompuServe is obligated to pay the Company (or the Company is obligated to pay CompuServe) for CompuServe's liability (or tax benefits) related to Federal, state, and local income taxes during any taxable period.

Net earnings per share: Net earnings per share are computed based on the weighted average number of common and common equivalent shares outstanding during the respective years (105,840,000 in 1997, 106,059,000 in 1996, and 105,871,000 in 1995). Net earnings per share assuming full dilution have not been shown as there would be no material dilution.

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

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

Stock plans: The Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"), in October 1995. SFAS 123 allows companies to continue under the approach set forth in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"), for recognizing stock-based compensation expense in the financial statements, but encourages companies to adopt the provisions of SFAS 123 based on the estimated fair value of employee stock options. Companies electing to retain the approach under APB 25 are required to disclose pro forma net earnings and net earnings per share in the notes to the financial statements, as if they had adopted the fair value accounting method under SFAS 123. The Company has elected to retain its current accounting approach under APB 25.

New accounting standard: In February 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 128, "Earnings per Share" ("SFAS 128"), effective for periods ending after December 15, 1997. SFAS 128 requires the disclosure of basic earnings per share and diluted earnings per share on the face of the income statement, and a reconciliation of the numerator and denominator of the basic earnings per share computation to the numerator and denominator of the diluted earnings per share computation in the notes to the financial statements. The Company will fully adopt the provisions of SFAS 128 beginning with the quarter ending January 31, 1998. The adoption of SFAS 128 will not have a material effect on reported net earnings per share as presented herein.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents is comprised of the following:

	April 30 1997	1996
Cash and interest-bearing deposits	$103,802	$272,951
Commercial paper	288,656	105,216
Certificates of deposit	99,747	22,093
U.S. Government obligations	62,586	285,400
Other interest-bearing securities	41,060	--
	$595,851	$685,660

MARKETABLE SECURITIES

The amortized cost and market value of marketable securities at April 30, 1997 and 1996 are summarized below:

	1997				1996			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
Current:								
Municipal bonds and notes	$ 6,167	$ 17	$ 12	$ 6,172	$ 13,182	$ 440	$ 79	$ 13,543
U.S. Government obligations	15,047	8	9	15,046	3,492	3	--	3,495
Other debt investments	63,048	131	35	63,144	25,852	82	20	25,914
	84,262	156	56	84,362	42,526	525	99	42,952
Noncurrent:								
Municipal bonds	15,039	325	135	15,229	11,013	310	37	11,286
Preferred stock	647	299	--	946	1,511	316	32	1,795
Common stock	3,165	1,550	3	4,712	3,085	935	20	4,000
	18,851	2,174	138	20,887	15,609	1,561	89	17,081
	$103,113	$2,330	$194	$105,249	$ 58,135	$2,086	$188	$ 60,033

All marketable securities at April 30, 1997 are classified as available-for-sale. Proceeds from the sales of available-for-sale securities were $23,852, $155,170 and $299,702 during 1997, 1996 and 1995, respectively. Gross realized gains on those sales during 1997, 1996 and 1995 were $600, $1,520 and $7,014, respectively; gross realized losses were $146, $386 and $350, respectively. At April 30, 1997 and 1996, the net unrealized holding gain on available-for-sale securities included in stockholders' equity in the consolidated balance sheet was $1,326 and $1,169, respectively.

Contractual maturities of available-for-sale debt securities at April 30, 1997 are presented below. Since expected maturities differ from contractual maturities due to the issuers' rights to prepay certain obligations or the seller's rights to call certain obligations, the first call date, put date or auction date for municipal bonds and notes is considered the contractual maturity date.

	Amortized Cost	Market Value
Within one year	$84,262	$84,362
After one year through five years	6,846	7,034
After five years through 10 years	8,193	8,195
	$99,301	$99,591

RECEIVABLES

Receivables consist of the following:

	April 30 1997	April 30 1996
Credit card loans	$247,889	$166,008
Mortgage loans held for sale	107,115	8,674
Other	205,791	166,900
	560,795	341,582
Allowance for doubtful accounts	35,018	7,848
	$525,777	$333,734

PROPERTY AND EQUIPMENT

A summary of property and equipment follows:

	April 30 1997	April 30 1996
Land	$ 7,072	$ 7,084
Buildings	95,707	87,523
Computer and other equipment	700,136	582,815
Leasehold improvements	49,558	37,347
	852,473	714,769
Less accumulated depreciation and amortization	432,195	315,195
	$420,278	$399,574

Depreciation and amortization expense for 1997, 1996 and 1995 amounted to $143,283, $90,829 and $62,809, respectively.

OTHER NONCURRENT LIABILITIES

The Company has deferred compensation plans which permit directors and certain management employees to defer portions of their compensation and accrue earnings on the deferred amounts. The compensation, together with Company matching of deferred amounts, has been accrued, and the only expenses related to these plans are the Company match and the earnings on the deferred amounts, which are not material to the financial statements. Included in other noncurrent liabilities is $32,990 at the end of 1997 and $31,146 at the end of 1996 to reflect the liability under these plans. The Company purchased whole-life insurance contracts on certain related directors and employees to recover distributions made or to be made under the plans and has recorded the cash surrender value of the policies in other assets. If all the assumptions regarding mortality, earnings, policy dividends and other factors are realized, the Company will ultimately realize its full investment plus a factor for the use of its money.

STOCKHOLDERS' EQUITY

Changes in the components of stockholders' equity during the three years ended April 30, 1997 are summarized below:

	Common Stock		Convertible Preferred Stock		Additional Paid-in	Retained	Treasury Stock	
	Shares	Amount	Shares	Amount	Capital	Earnings	Shares	Amount
Balances at May 1, 1994	108,972,699	$1,089	-	-	$ 90,552	$719,724	(2,823,605)	$(103,490)
Net earnings for the year	-	-	-	-	-	107,259	-	-
Stock options exercised	-	-	-	-	(4,164)	-	1,624,843	62,161
Unrealized gain on translation	-	-	-	-	-	2,043	-	-
Acquisition of treasury shares	-	-	-	-	-	-	(2,910,900)	(114,900)
Stock issued for acquisition	-	-	401,768	$ 4	54,190	-	-	-
Cumulative effect of change in accounting for marketable securities, net of taxes	-	-	-	-	-	5,526	-	-
Change in net unrealized gain on marketable securities	-	-	-	-	-	(5,291)	-	-
Cash dividends paid - $1.21 1/4 per share	-	-	-	-	-	(128,838)	-	-
Balances at April 30, 1995	108,972,699	1,089	401,768	4	140,578	700,423	(4,109,662)	(156,229)
Net earnings for the year	-	-	-	-	-	177,168	-	-
Stock options exercised	-	-	3,031	-	(1,501)	-	340,395	12,957
Restricted stock granted	-	-	-	-	(47)	-	46,370	1,763
Unrealized loss on translation	-	-	-	-	-	(50)	-	-
Acquisition of treasury shares	-	-	-	-	-	-	(1,833,200)	(71,897)
Sale of stock by subsidiary	-	-	-	-	365,664	-	-	-
Change in net unrealized gain on marketable securities	-	-	-	-	-	934	-	-
Cash dividends paid - $1.27 1/4 per share	-	-	-	-	-	(131,263)	-	-
Balances at April 30, 1996	108,972,699	1,089	404,799	4	504,694	747,212	(5,556,097)	(213,406)
Net earnings for the year	-	-	-	-	-	47,755	-	-
Stock options exercised	-	-	2,280	-	24	-	88,945	3,415
Cancellation of restricted stock	-	-	-	-	-	-	(28,217)	(1,044)
Unrealized loss on translation	-	-	-	-	-	(3,065)	-	-
Repurchase of Convertible Preferred Stock	-	-	(391)	-	-	-	-	-
Stock issued for acquisition	-	-	-	-	(2,410)	-	589,948	22,660
Change in net unrealized gain on marketable securities	-	-	-	-	-	157	-	-
Cash dividend paid - $1.04 per share	-	-	-	-	-	(107,988)	-	-
Balances at April 30, 1997	108,972,699	$1,089	406,688	$ 4	$502,308	$684,071	(4,905,421)	$(188,375)

The Company is authorized to issue 6,000,000 shares of Preferred Stock, without par value. At April 30, 1997, the Company had 5,592,921 shares of authorized but unissued Preferred Stock. Of the unissued shares, 600,000 shares have been designated as Participating Preferred Stock in connection with the Company's shareholder rights plan.

On March 8, 1995, the Board of Directors authorized the issuance of a series of 500,000 shares of nonvoting Preferred Stock designated as Convertible Preferred Stock, without par value. On April 4, 1995, 401,768 shares of Convertible Preferred Stock were issued to certain shareholders of SPRY, Inc. ("SPRY") in connection with the Company's acquisition of such corporation.

Each share of Convertible Preferred Stock is convertible on or after April 5, 1998 into four shares of Common Stock of the Company, subject to adjustment upon certain events. The holders of the Convertible Preferred Stock are not entitled to receive dividends paid in cash, property or securities and, in the event of any dissolution, liquidation or winding-up of the Company, will share ratably with the holders of Common Stock then outstanding in the assets of the Company after any distribution or payments are made to the holders of Participating Preferred Stock or the holders of any other class or series of stock of the Company with preference over the Common Stock.

STOCK OPTION PLANS

The Company has three stock option plans: the 1993 Long-Term Executive Compensation Plan, the 1989 Stock Option Plan for Outside Directors and a plan for eligible seasonal employees. The 1993 plan was approved by the shareholders in September 1993 to replace the 1984 Long-Term Executive Compensation Plan, which terminated at that time except with respect to outstanding awards thereunder. Under the 1993 and 1989 plans, options may be granted to selected employees and outside directors to purchase the Company's Common Stock for periods not exceeding 10 years at a price that is not less than 100% of fair market value on the date of the grant. A majority of the options are exercisable each year either starting one year after the date of the grant or on a cumulative basis at the annual rate of 33 1/3% of the total number of option shares. Other options are exercisable commencing three years after the date of the grant on a cumulative basis in annual increments of 60%, 20% and 20% of the total number of option shares.

The plan for eligible seasonal employees, as amended, provided for the grant of options on June 30, 1997, 1996 and 1995 at the market price on the date of the grant. The options are exercisable during September in each of the two years following the calendar year of the grant.

Changes during the years ended April 30, 1997, 1996 and 1995 under these plans were as follows:

	1997		1996		1995	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Options outstanding, beginning of year	6,413,928	$37.93	4,865,814	$35.73	3,538,341	$32.05
Options granted	3,124,588	32.34	3,545,692	40.35	3,912,763	38.53
Options exercised	(90,045)	20.08	(362,849)	29.02	(1,624,203)	33.21
Options which expired	(3,230,772)	37.16	(1,634,729)	38.63	(961,087)	37.79
Options outstanding, end of year	6,217,699	35.78	6,413,928	37.93	4,865,814	35.73
Shares exercisable, end of year	4,506,372	36.00	4,029,301	37.56	2,727,540	34.42
Shares reserved for future grants, end of year	13,660,778		13,554,594		15,465,557	

A summary of stock options outstanding and exercisable at April 30, 1997 follows:

	Outstanding			Exercisable	
Range of Exercise Prices	Number Outstanding at April 30	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable at April 30	Weighted-Average Exercise Price
$6.9525 - 16.25	36,337	2 years	$14.50	36,337	$14.50
$17.4375 - 28.75	529,720	7 years	25.99	278,970	24.52
$30.6875 - 39.875	3,586,278	9 years	34.41	2,548,222	34.33
$40 - 44.375	2,065,364	9 years	41.04	1,642,843	41.02
	6,217,699			4,506,372	

In connection with the acquisition of SPRY, outstanding options to purchase SPRY common stock under an employee stock option plan were converted on April 4, 1995 into options to purchase 51,828 shares of the Company's Convertible Preferred Stock. During 1997 and 1996, options to purchase Convertible Preferred Stock of 2,280 and 3,031, respectively, were exercised, and 11,163 and 2,052, respectively, were terminated. At April 30, 1997, 33,302 of such options were outstanding, with exercise prices ranging from $9.54 to $19.08.

The Company applies APB 25 in accounting for its stock option plans, under which no compensation cost has been recognized for stock option awards.

Had compensation cost for the stock option plans been determined in accordance with the fair value accounting method prescribed under SFAS 123, the Company's net earnings and net earnings per share on a pro forma basis would have been as follows:

	Year Ended April 30 1997	1996
Net earnings:		
As reported	$47,755	$177,168
Pro forma	34,891	168,232
Net earnings per share:		
As reported	$.45	$1.67
Pro forma	.33	1.59

The SFAS 123 fair value method of accounting is not required to be applied to options granted prior to May 1, 1995, therefore, the pro forma compensation cost may not be representative of that to be expected in future years. Compensation cost for 1997 includes options granted during a two-year period, whereas 1996 includes compensation cost for options granted during that year.

For the purposes of computing the pro forma effects of stock option grants under the fair value accounting method, the fair value of each stock option grant was estimated on the date of the grant using the Black-Scholes option pricing model. The weighted-average fair value of stock options granted during 1997 and 1996 was $6.14 and $8.46, respectively. The following weighted-average assumptions were used for grants during the following periods:

	Year Ended April 30 1997	1996
Risk-free interest rate	6.28%	5.89%
Expected life	3 years	3 years
Expected volatility	34.08%	35.32%
Dividend yield	2.42%	1.99%

SHAREHOLDER RIGHTS PLAN

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

Under the plan, as amended, a Right becomes exercisable when a person or group of persons acquires beneficial ownership of 10% or more of the outstanding shares of the Company's Common Stock without the prior written approval of the Company's Board of Directors (an "Unapproved Stock Acquisition"), and after 10 business days following the commencement of a tender offer that would result in an Unapproved Stock Acquisition. When exercisable, the registered holder of each Right may purchase from the Company one two-hundredths of a share of a new class of the Company's Participating Preferred Stock, without par value, at a price of $60.00, subject to adjustment. The registered holder of each Right then also has the right (the

"Subscription Right") to purchase for the exercise price of the Right, in lieu of shares of Participating Preferred Stock, a number of shares of the Company's Common Stock having a market value equal to twice the exercise price of the Right. Following an Unapproved Stock Acquisition, if the Company is involved in a merger, or 50% or more of the Company's assets or earning power are sold, the registered holder of each Right has the right (the "Merger Right") to purchase for the exercise price of the Right a number of shares of the common stock of the surviving or purchasing company having a market value equal to twice the exercise price of the Right.

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

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

OTHER EXPENSES

Included in other expenses are the following:

	Year Ended April 30		
	1997	1996	1995
Bad debts	$90,134	$31,766	$13,983
Purchased services	71,901	44,646	18,211
Royalties	68,653	77,926	59,027
Legal and professional	30,626	23,877	8,969
Travel and entertainment	24,971	26,349	20,077
Taxes and licenses	21,141	11,151	11,943
Interest	11,661	3,969	4,060
Amortization of goodwill	8,878	14,595	4,875

Also included in other expenses for the year ended April 30, 1997 are charges totaling $34,754. Of the total, $17,713 related to the potential sale or other disposition of certain assets and business operations of a corporate computer software group; the consolidation of certain U.S.-based staff functions and office facilities; the renegotiation of certain third-party customer service agreements; and the write-off of certain obsolete software costs for billing and customer service systems. An additional $9,191 related to further consolidation of Columbus-area office facilities and the sale or write-down of certain equity investments in providers of content and technologies. The remaining $7,850 was due to the withdrawal of the WOW! online service from the marketplace as of January 31, 1997.

TAXES ON EARNINGS

The components of earnings before income taxes and minority interest upon which Federal and foreign income taxes have been provided are as follows:

	Year Ended April 30		
	1997	1996	1995
United States	$27,967	$276,586	$213,122
Foreign	10,589	8,708	6,874
	$38,556	$285,294	$219,996

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

	Year Ended April 30		
	1997	1996	1995
Currently payable:			
Federal	$20,504	$ 47,357	$ 96,686
State	3,036	6,047	13,511
Foreign	5,041	2,083	3,274
	28,581	55,487	113,471
Deferred:			
Federal	(12,110)	44,926	(625)
State	(1,793)	5,736	(88)
Foreign	(65)	1,977	(21)
	(13,968)	52,639	(734)
	$14,613	$108,126	$112,737

Provision is not made for possible income taxes payable upon distribution of unremitted earnings of foreign subsidiaries. Such unremitted earnings aggregated $58,996 at December 31, 1996. Management believes the cost to repatriate these earnings would not be material.

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

	Year Ended April 30		
	1997	1996	1995
Statutory rate	35.0%	35.0%	35.0%
Increases (reductions) in income taxes resulting from:			
State income taxes, net of Federal income tax benefit	2.1%	2.7%	4.0%
Foreign taxes, net of Federal income tax benefit	3.3%	.4%	.3%
Purchased research and development	-	-	13.3%
Nontaxable Federal income	(3.2%)	(.7%)	(2.3%)
Other	.7%	.5%	.9%
Effective rate	37.9%	37.9%	51.2%

A summary of deferred income taxes follows:

	April 30	
	1997	1996
Gross deferred tax assets:		
Accrued expenses	$(8,090)	$(13,336)

Other	(142)	-
Current	(8,232)	(13,336)
Deferred compensation	(13,414)	(12,155)
Impairment of assets	(2,573)	-
Depreciation	(2,330)	-
State net operating loss carryforwards	(2,530)	-
Noncurrent	(20,847)	(12,155)
Gross deferred tax liabilities:		
Accrued income	1,878	-
Depreciation	28,095	20,375
Deferred subscriber acquisition costs	16,173	36,403
Product development costs	1,286	1,361
Capitalized research and development	1,043	716
Noncurrent	46,597	58,855
Net deferred tax liabilities	$19,396	$ 33,364

State net operating loss carryforwards will expire on various dates through 2011.

ACQUISITIONS

On April 14, 1997, the Company signed a definitive agreement to acquire Option One Mortgage Corporation ("Option One"), a California-based originator of nonconforming mortgage loans, for a cash purchase price equal to $190,000 plus adjusted stockholder's equity of Option One on the closing date. The acquisition, which will be accounted for as a purchase, was completed on June 17, 1997, subject to post-closing adjustments.

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

During fiscal 1997, 1996 and 1995, the Company made other acquisitions which were accounted for as purchases. Their operations, which are not material, are included in the consolidated statements of earnings. Pro forma results assuming SPRY had been acquired as of the beginning of the period presented would not be materially different from reported results.

SALE OF SUBSIDIARIES

On April 19, 1996, CompuServe effected an initial public offering of 18,400,000 shares of its common stock at $30.00 per share, which reduced the Company's ownership in CompuServe to just over 80%. The Company did not recognize a gain on this transaction. Additional paid-in capital was increased by the change in the Company's proportionate share of CompuServe's equity as a result of the initial public offering, from which the net proceeds to CompuServe were $518,819.

On May 1, 1995, the Company sold its wholly owned subsidiary, MECA Software, Inc., exclusive of its rights to publish TaxCut, for $35,000 cash. The sale resulted in a gain of $12,445, which is included in other income for the year ended April 30, 1996.

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

COMMITMENTS AND CONTINGENCIES

Substantially all of the Company's operations are conducted in leased premises. Most of the operating leases are for a one-year period with renewal options of one to three years and provide for fixed monthly rentals. Lease commitments at April 30, 1997, for fiscal 1998, 1999, 2000, 2001 and 2002 aggregated $94,770, $73,394, $50,790, $24,699 and $13,393, respectively, with no significant commitments extending beyond that period of time. The Company's rent expense for the years 1997, 1996 and 1995 aggregated $96,795, $78,745 and $70,377, respectively.

The Company has commitments to its credit card holders to the extent of the unused credit limits on credit card loans. These commitments amounted to $923,348 and $712,314 at April 30, 1997 and 1996, respectively. The Company does not require collateral to secure credit card loan agreements. Commitments on credit card loans are cancelable by the Company at any time and do not necessarily represent future cash requirements.

The Company is obligated to purchase 80% of the mortgage loan volume of a third party which meets certain criteria as established by the Company. The Company purchased $122,535 of such loans during the year ended April 30, 1997, which may not be indicative of future obligations. The Company also extends warehouse financing of $50,000 to such third party to facilitate the accumulation of mortgage loans, of which $8,199 was drawn at April 30, 1997.

At April 30, 1997, the Company maintained a $400,000 line of credit to support various financial activities conducted by Block Financial Corporation and its commercial paper program. This line of credit was increased to $1,000,000 subsequent to April 30, 1997. The annual commitment fee required to support the availability of this facility is seven basis points per annum on the unused portion of the facility. The Company also maintained a $25,000 line of credit to fulfill short-term cash requirements of CompuServe, which expired in June 1997. There was no outstanding balance under these lines at April 30, 1997 and 1996.

During fiscal 1997, CompuServe, certain current and former officers and directors of CompuServe, and the Company were named as defendants in four purported class action lawsuits and one lawsuit based on the same allegations in which the plaintiff does not seek class action status. One purported class action lawsuit was voluntarily dismissed by the plaintiffs and such plaintiffs have joined as plaintiffs in one of the remaining class action lawsuits. One suit names the lead underwriters in the CompuServe initial public offering as additional defendants and as representatives of a defendant class consisting of all underwriters who participated in such offering. Each pending suit alleges similar violations of the Securities Act of 1933 based on assertions of omissions and misstatements of fact in connection with CompuServe's public filings related to its initial public offering. One suit also alleges violations of the Ohio Securities Code and common law of negligent misrepresentation. Another suit also alleges violations of Colorado, Florida and Ohio statutes and common law of negligent misrepresentation. Relief sought is unspecified but includes pleas for rescission and damages. In addition to the five previously mentioned lawsuits, an action for discovery was filed during fiscal 1997 solely against CompuServe. In such action the plaintiff seeks factual support for a possible additional claim relating to initial public offering disclosures. The defendants are vigorously defending these suits.

FINANCIAL INSTRUMENTS

The Company securitizes and sells fixed and variable rate mortgage loan receivables. As a part of its interest rate risk management strategy, the Company may choose to hedge its interest rate risk related to its mortgage portfolio by utilizing treasury rate guarantees. The Company classifies these treasury rate guarantees as hedges of specific loan receivables. The gains and losses derived from these treasury rate guarantees are deferred and included in the carrying amounts of the related hedged items and ultimately recognized in earnings. Deferred losses on the treasury rate guarantees used to hedge the anticipated transactions amounted to $142 at April 30, 1997. The contract value and market value of these financial instruments as of April 30, 1997 was $40,000 and $39,925, respectively.

The Company purchases treasury rate guarantees from certain broker-dealer counterparties. In the event counterparties do not fulfill their obligations, the Company may be exposed to risk. The risk of default depends on the creditworthiness of the counterparty. It is the Company's policy to review, as necessary, the credit standing of each counterparty.

The Company is exposed to on-balance sheet credit risk related to its receivables. The Company is exposed to off-balance sheet credit risk related to mortgage loan receivables which the Company has commited to buy and commitments made to credit card holders to meet their financing needs.

QUARTERLY FINANCIAL DATA (UNAUDITED)

	Fiscal 1997 Quarter Ended				Fiscal 1996 Quarter Ended			
	April 30, 1997	Jan. 31, 1997	Oct. 31, 1996	July 31, 1996	April 30, 1996	Jan. 31, 1996	Oct. 31, 1995	July 31, 1995
Revenues	$1,085,891	$363,064	$ 253,450	$227,258	$921,931	$311,845	$221,046	$201,362
Earnings (loss) before income taxes (benefits) and minority interest	$ 313,197	$(44,085)	$(136,599)	$(93,957)	$299,163	$ (8,882)	$(13,470)	$ 8,483
Taxes (benefits) on earnings	117,329	(15,930)	(50,940)	(35,846)	113,452	(3,411)	(5,172)	3,257
Net earnings (loss) before minority interest	195,868	(28,155)	(85,659)	(58,111)	185,711	(5,471)	(8,298)	5,226
Minority interest	(3,567)	(2,829)	(11,531)	(5,885)	--	--	--	--
Net earnings (loss)	$ 199,435	$(25,326)	$(74,128)	$(52,226)	$185,711	$ (5,471)	$ (8,298)	$ 5,226
Net earnings (loss) per share	$ 1.90	$ (.24)	$ (.71)	$ (.50)	$ 1.75	$ (.05)	$ (.08)	$ .05

The Company recorded a charge to earnings of $17,713 in the first quarter of 1997 due to the potential sale or other disposition of certain assets and business operations of a corporate computer software group; the consolidation of certain U.S.-based staff functions and office facilities; the renegotiation of certain third-party customer service agreements; and the write-off of certain obsolete software costs for billing and customer service systems.

The Company also recorded charges to earnings in the second quarter of 1997 of $34,500 related to accelerated amortization of previously deferred CSi subscriber acquisition costs; $10,881 due to the write-off of all previously deferred subscriber acquisition costs for WOW! and SPRYNET; and $7,850 related to the withdrawal of the WOW! online service from the marketplace.

Additionally, the Company recorded a charge to earnings of $9,191 in the fourth quarter of 1997 related to further consolidation of Columbus-area office facilities and the sale or write-down of certain equity investments in providers of content and technologies.

SEGMENT INFORMATION

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

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

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

Financial Services: This segment provides and invests primarily in financial services delivery technology and the related financial services delivered by that technology as well as financial services associated with Tax Services and its typical customer. It sponsors credit card loans, nonconforming mortgages and other financial services to existing CompuServe and Tax Services customers. This segment also provides personal productivity software to the general public and purchases participation interests in refund anticipation loans made by a third party lending institution.

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

Information concerning the Company's operations by industry segment for the years ended April 30, 1997, 1996 and 1995 is as follows:

	1997	1996	1995
REVENUES:			
Tax Services	$ 993,924	$ 831,455	$ 729,718
Computer Services	841,887	792,661	579,997
Financial Services	110,830	36,442	35,909
Unallocated corporate	1,012	3,636	695
Intersegment sales	(17,990)	(8,010)	(12,500)
Total revenues	$1,929,663	$1,656,184	$1,333,819
OPERATING EARNINGS:			
Tax Services	$ 217,124	$ 194,771	$ 147,740
Computer Services	(196,362)	87,332	147,313
Financial Services	7,053	(7,368)	(5,788)
Unallocated corporate	(9,989)	(10,880)	(12,260)
Purchased research and development	-	-	(83,508)
Total operating earnings	17,826	263,855	193,497
Investment income, net	20,730	8,994	23,703
Other, net	-	12,445	2,796
Earnings before income taxes and minority interest	$ 38,556	$ 285,294	$ 219,996
DEPRECIATION AND AMORTIZATION:			
Tax Services	$ 35,300	$ 23,499	$ 21,991
Computer Services	130,285	78,683	42,639
Financial Services	1,093	8,929	2,992
Corporate	133	129	62
Total depreciation and amortization	$ 166,811	$ 111,240	$ 67,684
IDENTIFIABLE ASSETS:			
Tax Services	$ 213,455	$ 141,031	$ 117,560
Computer Services	731,666	950,671	310,393
Financial Services	415,717	208,489	186,859
Corporate	545,420	455,700	482,501
Total assets	$1,906,258	$1,755,891	$1,097,313
CAPITAL EXPENDITURES:			
Tax Services	$ 43,159	$ 36,724	$ 26,033
Computer Services	125,753	227,710	99,690
Financial Services	1,450	938	2,135
Corporate	144	354	45
Total capital expenditures	$ 170,506	$ 265,726	$ 127,903

MANAGEMENT'S REPORT

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

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

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

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

/s/ Frank L. Salizzoni

Frank L. Salizzoni
President and Chief Executive Officer

/s/ Ozzie Wenich

Ozzie Wenich
Senior Vice President,
Chief Financial Officer and Treasurer

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated balance sheets of H&R Block, Inc. and subsidiaries as of April 30, 1997 and 1996, and the related consolidated statements of earnings and cash flows for each of the three years in the period ended April 30, 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of H&R Block, Inc., and subsidiaries as of April 30, 1997 and 1996, and the results of their operations and their cash flows for each of the three years in the period ended April 30, 1997, in conformity with generally accepted accounting principles.

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

/s/ Deloitte & Touche LLP

Deloitte & Touche LLP
Kansas City, Missouri
June 17, 1997

EXHIBIT 21

SUBSIDIARIES OF H&R BLOCK, INC.

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

NAME	JURISDICTION IN WHICH ORGANIZED
H&R Block Group, Inc.	Delaware (1)
Block Investment Corporation	Delaware (1)
HRB Management, Inc.	Missouri (2)
H&R Block Tax Services, Inc.	Missouri (2)
H&R Block Eastern Tax Services, Inc.	Missouri (3)
Bay Colony, Ltd.	Virginia (4)
H&R Block of Dallas, Inc.	Texas (3)
HRB Partners, Inc.	Delaware (5)
H&R Block and Associates, L.P.	Delaware (6)
HRB Royalty, Inc.	Delaware (3)
BWA Advertising, Inc.	Missouri (3)
H&R Block Canada, Inc.	Canada (3)
H&R Block (Nova Scotia), Incorporated	Nova Scotia (7)
Cashplan Systems, Inc.	British Columbia (7)
Two Dog Ranch Ltd.	British Columbia (7)
H&R Block (Guam), Inc.	Guam (3)
H&R Block Limited	New South Wales (8)
H&R Block The Income Tax People Limited	New Zealand (3)
Block Financial Corporation	Delaware (2)
Franchise Partner, Inc.	Nevada (9)
WebBank Corporation	Utah (9)
MECA Sub - LFOD, Ltd.	New Hampshire (9)
Companion Mortgage Corporation	Delaware (9)
Block Mortgage Finance, Inc.	Delaware (10)
Companion Servicing Company, L.L.C.	Georgia (11)
Option One Mortgage Corporation	California (9)
Option One Mortgage Acceptance Corporation	Delaware (12)
Premier Trust Deed Services, Inc.	California (12)
Block Mortgage Company, L.L.C.	Virginia (13)
CompuServe Corporation	Delaware(14)
CompuServe Incorporated	Ohio (15)
CompuPlex Incorporated	Ohio (16)
CompuServe Ventures Incorporated	Ohio (16)
CompuServe Works of Wonder, Inc.	Ohio (16)
CompuServe Systems Integration Group Southwest, Inc.	Texas (16)
CompuServe Canada Limited	Canada (16)
CompuServe Consulting Services (UK) Limited	United Kingdom (16)
CompuServe Information Services (UK) Limited	United Kingdom (16)
CompuServe Information Services GMBH	Germany (16)
CompuServe Information Services AG	Switzerland (16)
CompuServe Information Systems S.A.R.L.	France (16)
CompuServe A.B.	Sweden (16)
CompuServe Information Services, B.V.	The Netherlands (16)

NAME	JURISDICTION IN WHICH ORGANIZED
CompuServe International Pty, Ltd.	Australia (16)
CNS Information (S) Pte Ltd	Singapore (16)
Spry, Inc.	Washington (16)
Network Publishing Inc.	Utah (17)
Access Technology, Inc.	Massachusetts (18)
Companion Insurance, Ltd.	Bermuda (18)
H&R Block U.K. Ltd.	United Kingdom (18)
HRB Investment, Inc.	Delaware (18)
PM Industries, Inc.	Kansas (18)

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

(1) Wholly owned subsidiary of H&R Block, Inc.
(2) Wholly owned subsidiary of H&R Block Group, Inc.
(3) Wholly owned subsidiary of H&R Block Tax Services, Inc.
(4) Wholly owned subsidiary of H&R Block Eastern Tax Services, Inc.
(5) Wholly owned subsidiary of H&R Block of Dallas, Inc.
(6) Limited partnership in which H&R Block Tax Services, Inc. is a 1% general partner and HRB Partners, Inc. is a 99% limited partner
(7) Wholly owned subsidiary of H&R Block Canada, Inc.
(8) Wholly owned subsidiary of HRB Royalty, Inc.
(9) Wholly owned subsidiary of Block Financial Corporation
(10) Wholly owned subsidiary of Companion Mortgage Corporation
(11) Limited liability company in which Block Financial Corporation has a 50% membership interest and a nonaffiliated individual has a 50% membership interest
(12) Wholly owned subsidiary of Option One Mortgage Corporation
(13) Limited liability company in which H&R Block Tax Services, Inc. has a 99% membership interest and Block Financial Corporation has a 1% membership interest
(14) 80.1%-owned subsidiary of H&R Block Group, Inc.
(15) Wholly owned subsidiary of CompuServe Corporation
(16) Wholly owned subsidiary of CompuServe Incorporated
(17) 55%-owned subsidiary of CompuServe Incorporated
(18) Wholly owned subsidiary of HRB Management, Inc.

<ARTICLE> 5
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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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