

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934
For the quarterly period ended January 31, 2003

OR

TRANTION 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 No.)

4400 Main Street
Kansas City, Missouri 64111
(Address of principal executive offices, including zip code)

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

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

Yes No

The number of shares outstanding of the registrant's Common Stock, without par value, at the close of business on February 28, 2003 was 179,111,604 shares.

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H&R BLOCK, INC.
CONSOLIDATED BALANCE SHEETS
Amounts in thousands, except share amounts

	January 31, 2003	April 30, 2002
ASSETS	(Unaudited)	(Audited)
CURRENT ASSETS		
Cash and cash equivalents	\$ 436,918	\$ 436,145
Cash and cash equivalents — restricted	418,721	152,173
Marketable securities — trading	18,365	28,370
Receivables from customers, brokers, dealers and clearing organizations, less allowance of \$1,741 and \$1,785	546,251	844,538
Receivables, less allowance of \$25,762 and \$64,057	465,195	368,345
Prepaid expenses and other current assets	476,785	415,572
TOTAL CURRENT ASSETS	2,362,235	2,245,143
INVESTMENTS AND OTHER ASSETS		
Investments in available-for-sale marketable securities	16,464	15,260
Residual interests in securitizations	274,353	365,371
Intangible assets, net	351,766	383,085
Goodwill, net	724,759	723,856
Property and equipment, at cost less accumulated depreciation and amortization of \$462,393 and \$410,885	294,222	286,500
Other	225,437	211,576
	\$ 4,249,236	\$ 4,230,791
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Notes payable	\$ 586,803	\$ —
Accounts payable to customers, brokers and dealers	823,890	903,201
Accounts payable, accrued expenses and deposits	439,016	410,622
Accrued salaries, wages and payroll taxes	179,545	253,401
Accrued income taxes	70,117	252,822
Current portion of long-term debt	53,369	59,656
TOTAL CURRENT LIABILITIES	2,152,740	1,879,702
LONG-TERM DEBT	828,900	868,387
OTHER NONCURRENT LIABILITIES	100,106	113,282
STOCKHOLDERS' EQUITY		
Common stock, no par, stated value \$.01 per share	2,179	2,179
Additional paid-in capital	498,315	468,052
Accumulated other comprehensive income	22,718	44,128
Retained earnings	1,759,479	1,767,702
Less cost of 39,079,131 and 36,819,739 shares of common stock in treasury	(1,115,201)	(912,641)
TOTAL STOCKHOLDERS' EQUITY	1,167,490	1,369,420
	\$ 4,249,236	\$ 4,230,791

See Notes to Consolidated Financial Statements

H&R BLOCK, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
Unaudited, amounts in thousands, except per share amounts

	Three Months Ended January 31,		Nine Months Ended January 31,	
	2003	2002	2003	2002
Revenues				
Service revenues	\$510,042	\$484,857	\$ 907,015	\$ 838,324
Gain on sale of mortgage assets:				
Mortgage loans and related assets	175,483	107,882	471,868	322,302
Residual interests previously securitized	130,881	—	130,881	—
Interest income	57,230	54,030	228,176	148,122
Product sales	43,312	41,967	74,234	63,718
Royalties	39,026	33,329	43,082	37,772
Other	2,439	11,467	5,919	26,171
	<u>958,413</u>	<u>733,532</u>	<u>1,861,175</u>	<u>1,436,409</u>
Operating expenses				
Employee compensation and benefits	352,209	321,353	791,692	698,069
Occupancy and equipment	87,349	72,678	223,642	194,106
Operating interest	2,585	3,904	9,739	19,972
Other interest	22,232	26,829	60,050	70,351
Depreciation and amortization	42,670	38,167	114,738	107,095
Marketing and advertising	55,331	51,905	85,335	74,966
Supplies, freight and postage	33,154	22,008	55,472	38,051
Bad debt provision	25,457	33,095	40,472	50,194
Texas litigation reserve	—	—	41,672	—
Impairment of goodwill	—	—	24,000	—
Other	117,134	114,647	274,156	235,839
	<u>738,121</u>	<u>684,586</u>	<u>1,720,968</u>	<u>1,488,643</u>
Operating earnings (loss)	220,292	48,946	140,207	(52,234)
Other income, net	2,642	828	4,576	3,193
Earnings (loss) before income taxes	222,934	49,774	144,783	(49,041)
Income tax (benefit)	90,621	20,158	59,361	(19,862)
Net earnings (loss)	<u>\$132,313</u>	<u>\$ 29,616</u>	<u>\$ 85,422</u>	<u>\$ (29,179)</u>
Basic earnings (loss) per share	<u>\$.74</u>	<u>\$.16</u>	<u>\$.48</u>	<u>\$ (.16)</u>
Diluted earnings (loss) per share	<u>\$.73</u>	<u>\$.16</u>	<u>\$.46</u>	<u>\$ (.16)</u>
Dividends per share	<u>\$.18</u>	<u>\$.16</u>	<u>\$.51</u>	<u>\$.47</u>

See Notes to Consolidated Financial Statements

H&R BLOCK, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
 Unaudited, amounts in thousands

	Nine Months Ended January 31,	
	2003	2002
Cash flows from operating activities:		
Net earnings (loss)	\$ 85,422	\$ (29,179)
Adjustments to reconcile net earnings (loss) to net cash used in operating activities:		
Depreciation and amortization	114,738	107,095
Provision for bad debt	40,472	50,194
Accretion of acquisition liabilities	7,079	8,999
Tax benefit from stock option exercises	31,168	55,004
Accretion of residual interests in securitizations	(113,146)	(29,297)
Adjustments to fair value of residual interests in securitizations	25,589	29,642
Realized gain on sale of residual interests previously securitized	(130,881)	—
Additions to trading securities — residual interests in securitizations	(326,395)	(426,409)
Proceeds from net interest margin transactions	325,642	412,715
Impairment of goodwill	24,000	—
Changes in working capital, net	(450,437)	(1,099,612)
Net cash used in operating activities	(366,749)	(920,848)
Cash flows from investing activities:		
Available-for-sale securities:		
Purchases of available-for-sale securities	(10,577)	(3,695)
Cash received from residual interests in securitizations	117,522	33,006
Cash proceeds from sale of residual interests previously securitized	142,486	—
Maturities of other available-for-sale securities	9,730	28,203
Purchases of property and equipment, net	(95,629)	(71,343)
Payments made for business acquisitions, net of cash acquired	(24,239)	(44,397)
Other, net	(6,004)	(8,538)
Net cash provided by (used in) investing activities	133,289	(66,764)
Cash flows from financing activities:		
Repayments of notes payable	(9,301,285)	(6,147,398)
Proceeds from issuance of notes payable	9,888,088	7,786,230
Payments on acquisition debt	(52,107)	(49,479)
Dividends paid	(93,645)	(86,349)
Payments to acquire treasury shares	(317,608)	(352,213)
Proceeds from issuance of common stock	112,813	186,825
Other, net	(2,023)	688
Net cash provided by financing activities	234,233	1,338,304
Net increase in cash and cash equivalents	773	350,692
Cash and cash equivalents at beginning of the period	436,145	187,616
Cash and cash equivalents at end of the period	\$ 436,918	\$ 538,308
Supplemental cash flow disclosures:		
Income taxes paid	\$ 176,168	\$ 162,902
Interest paid	55,193	72,896

See Notes to Consolidated Financial Statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS*Unaudited, dollars in thousands, except share data***1. Basis of Presentation**

The Consolidated Balance Sheet as of January 31, 2003, the Consolidated Statements of Operations for the three and nine months ended January 31, 2003 and 2002, and the Consolidated Statements of Cash Flows for the nine months ended January 31, 2003 and 2002 have been prepared by the Company, without audit. In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position, results of operations and cash flows at January 31, 2003 and for all periods presented have been made.

Reclassifications have been made to prior periods to conform with the current period presentation.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. These consolidated financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's April 30, 2002 Annual Report to Shareholders on Form 10-K.

Operating revenues of the U.S. Tax Operations and Business Services segments are seasonal in nature with peak revenues occurring in the months of January through April. Thus, results for interim periods are not indicative of results to be expected for the full year.

The Company files its Federal and state income tax returns on a calendar year basis. The Consolidated Statements of Operations reflect the effective tax rates expected to be applicable for the respective full fiscal years.

2. Earnings (Loss) Per Share

Basic earnings (loss) per share is computed using the weighted average shares outstanding during each period. The dilutive effect of potential common shares is included in diluted net earnings (loss) per share. The computations of basic and diluted net earnings (loss) per share are as follows:

	Three months ended January 31,		Nine months ended January 31,	
	2003	2002	2003	2002
<i>(dollars and shares in thousands)</i>				
Net earnings (loss)	\$132,313	\$ 29,616	\$ 85,422	\$ (29,179)
Basic weighted average shares	178,770	182,936	179,620	183,028
Effect of dilutive securities:				
Common stock options	3,402	5,244	4,757	—
Convertible preferred stock	1	1	1	—
Dilutive potential shares	182,173	188,181	184,378	183,028
Net earnings (loss) per share:				
Basic	\$.74	\$.16	\$.48	\$ (.16)
Diluted	\$.73	\$.16	\$.46	\$ (.16)

Diluted earnings (loss) per share excludes the impact of shares issuable upon the exercise of common stock options of 4.7 million and 2.1 million for the three and nine months ended January 31, 2003, respectively, and the conversion of 1,216 shares of preferred stock to common stock, as they are antidilutive. Dilutive earnings (loss) per share excludes the impact of shares issuable upon the exercise of common stock options of 16.2 million for the nine months ended January 31, 2002 and the conversion of 1,216 shares of preferred stock to common stock, as they are antidilutive. All common stock option shares are included in dilutive potential shares for the three months ended January 31, 2002, as the options' exercise prices were all less than the average market price for the period.

The weighted average shares outstanding for the three and nine months ended January 31, 2003 decreased to 178.8 million and 179.6 million, respectively, from 182.9 million and 183.0 million, respectively, last year, due to the purchase of treasury shares by the Company. The effect of these repurchases was partially reduced by the issuance of treasury shares for stock option exercises.

During the nine months ended January 31, 2003 and 2002, the Company issued 4.2 million and 9.3 million shares of common stock, respectively, pursuant to provisions for exercise of stock options under its stock option plans. During the nine months ended January 31, 2003,

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the Company acquired 6.6 million shares of its common stock at an aggregate cost of \$317,608. During the nine months ended January 31, 2002, the Company acquired 9.7 million shares of its common stock at an aggregate cost of \$352,213.

3. Comprehensive Income

The Company's comprehensive income is comprised of net earnings (loss), the change in the net unrealized gain or loss on marketable securities and foreign currency translation adjustments. The components of comprehensive income (loss) during the three and nine months ended January 31, 2003 and 2002 were:

	Three months ended January 31,		Nine months ended January 31,	
	2003	2002	2003	2002
Net earnings (loss)	\$132,313	\$29,616	\$ 85,422	\$(29,179)
Change in net unrealized gain or loss on marketable securities	(65,585)	(3,729)	(31,385)	21,877
Change in foreign currency translation adjustments	9,204	(565)	9,975	(4,294)
Comprehensive income (loss)	<u>\$ 75,932</u>	<u>\$25,322</u>	<u>\$ 64,012</u>	<u>\$(11,596)</u>

4. Accounts Receivable

Receivables consist of the following:

	January 31, 2003	April 30, 2002
	(Unaudited)	(Audited)
Business Services accounts receivable	\$171,116	\$177,321
Mortgage loans held for sale	85,122	71,855
Tax related fees due from Household Bank	60,187	2,300
Loans to franchisees	44,961	31,055
Royalties from franchisees	34,211	134
Participation in refund anticipation loans	3,229	33,530
Software receivables	21,667	34,679
Other	70,464	81,528
	490,957	432,402
Allowance for doubtful accounts	25,762	64,057
	<u>\$465,195</u>	<u>\$368,345</u>

5. Residual Interests in Securitizations and Mortgage Servicing Rights

Activity related to residual interests in securitizations for the nine months ended January 31, 2003 and 2002 and the twelve months ended April 30, 2002 consists of the following:

	Nine Months Ended		Year Ended
	January 31, 2003	January 31, 2002	April 30, 2002
Balance, beginning of year	\$ 365,371	\$238,600	\$238,600
Additions	753	13,694	26,057
Cash received	(260,008)	(33,006)	(67,070)
Accretion	113,146	29,297	50,583
Adjustments to fair value	(25,589)	(29,642)	(30,987)
Changes in unrealized holding gains (losses) arising during the period:			
Gross unrealized holding gains	162,548	58,557	151,141
Gross unrealized holding losses	(12,609)	—	—
Less: realized (gains) losses	(69,259)	(11,301)	(2,953)
Balance, end of period	\$ 274,353	\$266,199	\$365,371

The Company sold \$12,412,587 of mortgage loans in whole loan sales to third-party trusts (Trusts) during the nine months ended January 31, 2003. Gains totaling \$497,457 were recorded on these sales. The Company retains a receivable from the sale, which, depending on the ultimate disposition of the loans by the Trusts, may become a residual interest. Residual interests valued at \$326,395 were securitized in net interest margin (NIM) transactions during the nine-month period. Net cash proceeds of \$325,642 were received from the NIM transactions and total additions to residual interests for the nine months ended January 31, 2003 were \$753. During the three months ended January 31, 2003, the Company also sold previously securitized residual interests valued at \$206,564 and recorded a gain of \$130,881 on the transaction. Cash proceeds of \$142,486 were received and a residual interest of \$57,378 was retained.

Residual interests are considered available-for-sale securities and are therefore reported at fair market value. Gross unrealized holding gains represent the write-up of residual interests as a result of lower interest rates, loan losses or loan prepayments to date than most recently projected in the Company's valuation models. Gross unrealized holding losses represent reductions of unrealized gains on previous write-ups. Realized gains represent write-ups that have been recognized as earnings in the income statement through accretion.

Aggregate net unrealized gains on residual interests, which had not yet been accreted into income, totaled \$88,372 at January 31, 2003 and \$139,492 at April 30, 2002. These unrealized gains are recorded net of deferred taxes in other comprehensive income, and will be recognized in earnings in future periods either through accretion or upon further securitization of the related residual interest.

Mortgage servicing rights (MSRs) are included in other assets on the Consolidated Balance Sheets. The carrying value of MSRs at January 31, 2003 and April 30, 2002 was \$104,580 and \$81,893, respectively. Additions to and amortization of MSRs for the nine months ended January 31, 2003 were \$55,960 and \$33,273, respectively.

The following table illustrates key assumptions the Company utilizes to estimate the cash flows and values of residual interests and MSRs:

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Estimated annual prepayments	23% to 90%
Estimated credit losses	1.1% to 5.5%
Discount rate — residual interests	12% to 37%
Discount rate — MSR	12.8%

Cross-collateralized residual interests are the original residual interests from a securitization, while NIM residuals are the residual interests resulting from a NIM transaction, as well as those resulting from the sale of previously securitized residual interests. At January 31, 2003, the sensitivities of the current fair value of the residuals and MSR to 10% and 20% adverse changes in the above key assumptions are as follows:

	Residential Mortgage Loans		
	Cross-Collateralized	NIM Residuals	Servicing Asset
Carrying amount/fair value of residuals	\$ 54,682	\$ 219,671	\$ 104,580
Weighted average life (in years)	6.5	2.3	1.6
Prepayments (including defaults):			
Adverse 10% — \$impact on fair value	\$ (279)	\$ (40,688)	\$ (16,309)
Adverse 20% — \$impact on fair value	(388)	(47,445)	(32,869)
Credit losses:			
Adverse 10% — \$impact on fair value	\$ (1,285)	\$ (25,078)	Not applicable
Adverse 20% — \$impact on fair value	(2,604)	(48,841)	Not applicable
Discount rate:			
Adverse 10% — \$impact on fair value	\$ (3,101)	\$ (7,661)	\$ (1,686)
Adverse 20% — \$impact on fair value	(5,975)	(14,584)	(3,321)
Variable interest rates:			
Adverse 10% — \$impact on fair value	\$ (292)	\$ (19,921)	Not applicable
Adverse 20% — \$impact on fair value	(489)	(40,188)	Not applicable

These sensitivities are hypothetical and should be used with caution. As the table indicates, changes in fair value based on a 10% variation in assumptions generally cannot be extrapolated because the relationship of the change in assumption to the change in fair value may not be linear. Also in this table, the effect of a variation of a particular assumption on the fair value of the retained interest is calculated without changing any other assumptions; it is likely that changes in one factor may result in changes in another, which might magnify or counteract the sensitivities.

6. Intangible Assets and Goodwill

Intangible assets consist of the following:

	January 31, 2003		April 30, 2002	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Investment Services				
Customer relationships	\$293,000	\$ (92,783)	\$293,000	\$ (70,808)
Business Services				
Customer relationships	118,910	(41,161)	116,814	(31,881)
Noncompete agreements	27,039	(5,517)	26,387	(3,624)
Trade name — amortizing	1,451	(169)	2,428	—
Trade name — non-amortizing	55,637	(4,868)	55,637	(4,868)
Corporate Operations				
Customer relationships	172	(4)	—	—
Noncompete agreements	60	(1)	—	—
Total intangible assets	\$496,269	\$ (144,503)	\$494,266	\$ (111,181)

Amortization of intangible assets for the nine months ended January 31, 2003 was \$33,322. Estimated amortization of intangible assets for fiscal years 2003, 2004, 2005, 2006 and 2007 is \$44,172, \$43,824, \$43,195, \$40,293 and \$38,818, respectively.

Changes in the carrying amount of goodwill for the nine months ended January 31, 2003, consist of the following:

	April 30, 2002	Additions	Other	January 31, 2003
U.S. Tax Operations	\$128,745	\$ 1,306	\$ —	\$130,051
International Tax Operations	5,287	—	47	5,334
Mortgage Operations	152,467	—	—	152,467
Investment Services	169,732	—	(24,000)	145,732
Business Services	267,625	21,373	1,979	290,977
Corporate Operations	—	198	—	198
Total goodwill	\$723,856	\$22,877	\$(21,974)	\$724,759

The Company tests goodwill for impairment annually, or more frequently if events occur which indicate a potential reduction in the fair value of a reporting unit's net assets below its carrying value. In light of unsettled market conditions and the severe decline of comparable business valuations in the investment industry, the Company engaged an independent valuation firm in the first quarter of fiscal year 2003 to perform step one of the goodwill impairment test on the Investment Services segment in accordance with Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets."

Based on the valuation, step one indicated the fair value of the Investment Services segment was \$18,000 below its recorded carrying value. This estimated impairment charge was recorded during the first quarter, as step two of the goodwill impairment test was not

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completed until after the filing of the first quarter Form 10-Q. The independent valuation firm completed step two during the second quarter, and an additional goodwill impairment of \$6,000 was identified and recorded during the three months ended October 31, 2002.

7. New Accounting Pronouncements

In August 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" (SFAS 144). This statement supercedes Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of" (SFAS 121), and the accounting and reporting provisions of Accounting Principles Board Opinion No. 30, "Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions," for the disposal of a segment of a business. SFAS 144 establishes a single accounting model, based on the framework established in SFAS 121, for long-lived assets to be disposed of by sale. The adoption of SFAS 144 on May 1, 2002 had no material effect on the consolidated financial statements.

On February 1, 2002 the Company adopted Emerging Issues Task Force Issue No. 01-9, "Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products)" (EITF 01-9). EITF 01-9 addresses sales incentives such as discounts, coupons or rebates offered to customers of retailers or other distributors and the income statement classifications of these items. Based on EITF 01-9, these items are recorded as a reduction of revenues. The Company has historically recorded these items as expenses in its U.S. and International Tax Operations segments. The adoption of EITF 01-9 had no impact on net earnings. Revenues and expenses were reduced \$7,372 and \$8,395 for the three and nine months ended January 31, 2002, respectively.

On February 1, 2002 the Company adopted Emerging Issues Task Force Issue No. 01-14, "Income Statement Characterization of Reimbursements Received for 'Out-of-Pocket' Expenses Incurred" (EITF 01-14). EITF 01-14 establishes requirements that must be met to record out-of-pocket expenses as either net in revenues or as expenses. The Company has out-of-pocket expenses associated with its Business Services segment and has historically recorded them net in revenues. Based on EITF 01-14, the Company now records these as gross revenues and expenses. There is no impact on net earnings as a result of the adoption of EITF 01-14. Revenues and expenses increased \$12,866 and \$13,911 for the three and nine months ended January 31, 2002, respectively.

In September 2002, the Emerging Issues Task Force issued Issue No. 02-13, "Deferred Income Tax Considerations in Applying the Goodwill Impairment Test in SFAS 142" (EITF 02-13). EITF 02-13 requires the use of the income tax basis of a reporting unit's assets and liabilities to be considered in accordance with the taxable status of the hypothetical transaction used to complete step one of the goodwill impairment test. EITF 02-13 is required to be applied for either step of the goodwill impairment test initiated after September 12, 2002. The adoption of EITF 02-13 is not expected to have a material effect on the consolidated financial statements.

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In November 2002, the Financial Accounting Standards Board issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" (FIN 45), which addresses the disclosure to be made by a guarantor in its interim and annual financial statements about its obligation under guarantees. FIN 45 also requires the guarantor to recognize a liability for the non-contingent component of the guarantee, which is the obligation to stand ready to perform in the event that specified triggering events or conditions occur. The initial measurement of this liability is the fair value of the guarantee at inception. The Company has adopted the disclosure requirements of FIN 45 and, in accordance with the transition rules of the pronouncement, has applied the recognition and measurement provisions for all guarantees entered into or modified after December 31, 2002 (see note 10). The adoption of FIN 45 had no material effect on the consolidated financial statements.

In December 2002, Statement of Financial Accounting Standards No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure" (SFAS 148) was issued and amends Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation." SFAS 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this statement amends prior disclosure requirements to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The transition provisions are effective for financial statements for fiscal years ending after December 15, 2002. The enhanced disclosure requirements are effective for periods beginning after December 15, 2002. The Company currently accounts for stock-based compensation using the intrinsic-value method, and will adopt the disclosure provisions of SFAS 148 beginning with its Annual Report for the year ending April 30, 2003.

In November 2002, Emerging Issues Task Force Issue No. 00-21, "Revenue Arrangements with Multiple Deliverables" (EITF 00-21) was issued. EITF 00-21 requires that consideration received in connection with arrangements involving multiple revenue-generating activities be measured and allocated to each separate unit of accounting in the arrangement. Revenue recognition would be determined separately for each unit of accounting within the arrangement. EITF 00-21 is effective for revenue arrangements entered into in fiscal periods beginning after June 15, 2003. The Company is currently evaluating the impact the adoption of EITF 00-21 will have on its financial statements.

In January 2003 the Financial Accounting Standards Board issued Interpretation No. 46, "Consolidation of Variable Interest Entities" (FIN 46). FIN 46 provides guidance with respect to the consolidation of certain entities (variable interest entities, or VIEs) whereby a controlling financial interest is achieved through arrangements that do not involve voting interests. In addition, FIN 46 requires certain disclosures relating to a company's involvement with VIEs. The provisions of FIN 46 apply immediately to VIEs created after January 31, 2003, and to VIEs in which an enterprise obtains an interest after that date. FIN 46 applies in the first fiscal year or interim period beginning after June 15, 2003, to VIEs in which an enterprise holds a variable interest that it acquired before February 1, 2003. The Company is currently evaluating the impact the adoption of FIN 46 will have on its financial statements.

8. Segment Information

Information concerning the Company's operations by reportable operating segment for the three and nine months ended January 31, 2003 and 2002 is as follows:

	Three months ended January 31,		Nine months ended January 31,	
	2003	2002	2003	2002
Revenues:				
U.S. Tax Operations	\$403,571	\$371,874	\$ 460,286	\$ 418,915
International Tax Operations	8,779	7,977	28,388	26,450
Mortgage Operations	396,980	179,751	921,874	508,897
Investment Services	48,047	61,085	156,737	194,837
Business Services	100,741	107,061	293,938	279,866
Corporate Operations	295	5,784	(48)	7,444
	<u>\$958,413</u>	<u>\$733,532</u>	<u>\$1,861,175</u>	<u>\$1,436,409</u>
Earnings (loss) from:				
U.S. Tax Operations	\$ 34,137	\$ 25,280	\$ (212,192)	\$ (160,113)
International Tax Operations	(5,735)	(5,242)	(12,436)	(11,886)
Mortgage Operations	262,466	77,427	563,071	237,397
Investment Services	(31,755)	(12,300)	(92,488)	(27,533)
Business Services	(4,197)	1,780	(12,255)	2,163
Corporate Operations	(13,968)	(17,928)	(33,927)	(29,068)
Interest expense — acquisition debt	(18,014)	(19,243)	(54,990)	(60,001)
	<u>\$222,934</u>	<u>\$ 49,774</u>	<u>\$ 144,783</u>	<u>\$ (49,041)</u>

9. Contingencies

In November 2002, the Company and a major franchisee of a subsidiary of the Company, reached an agreement with the plaintiff class in the class action lawsuit entitled *Ronnie and Nancy Haese, et al. v. H&R Block, Inc. et al.*, Case No. CV96-423, in the District Court of Kleberg County, Texas, related to refund anticipation loans (RALs). The proposed settlement provides a five-year package of coupons class members can use to obtain a variety of tax preparation and tax planning services from the Company's subsidiaries. The Company's major franchisee, which operates more than half of all H&R Block offices in Texas, will share a portion of the total settlement cost. As a result, the Company recorded a liability and pretax expense of \$41,672, or \$.14 per basic and diluted share, during the three months ended October 31, 2002, which represents the Company's share of the settlement cost for plaintiff class legal fees and expenses, tax products and associated mailing expenses. This amount represents the Company's best estimate of its liability at this time. In addition to this liability, the Company would recognize the cost of the tax preparation coupons as they are redeemed each year. The settlement is subject to court approval and there are no assurances such approval will be obtained.

The Company is a named defendant in litigation entitled *Paul White, et al. v. H&R Block, et al.*, *Yuchong Smith, et al. v. H&R Block, Inc., et al.*, *Richard J. Rodney, et al. v. H&R Block, Inc., et al.*, and *Michael F. McCormack, et al. v. H&R Block, Inc., et al.*, Case Numbers 02CV8965, 02CV9661, 02CV9682 and 02CV9830, respectively, pending in the United

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States District Court for the Southern District of New York. These matters were filed in the third quarter of fiscal year 2003. The respective named plaintiffs seek to represent a class of shareholders who purchased the Company's stock between November 8, 1997 and November 1, 2002, and allege that the defendants violated Section 10(b)(5) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder by failing to disclose to shareholders various cases in which the Company had been sued regarding the RAL program. The four securities law cases have all been assigned to the same judge and consolidated for pre-trial matters. On January 13, 2003, the judge signed an order relieving the defendants from an obligation to respond to any of the four complaints until after a consolidated complaint is filed. The amended complaint is to be filed by March 14, 2003, with the defendants' response due in April 2003. The Company believes the claims in these actions are without merit, and intends to defend them vigorously.

In addition to the aforementioned cases, the Company and its subsidiaries have from time to time been party to claims and lawsuits arising out of such subsidiaries' business operations, including other claims and lawsuits relating to RALs, and claims and lawsuits concerning the preparation of customers' income tax returns, the electronic filing of income tax returns, the fees charged customers for various services, the Peace of Mind warranty program associated with income tax return preparation services, relationships with franchisees and contract disputes. Such lawsuits include actions by individual plaintiffs, as well as cases in which plaintiffs seek to represent a class of similarly situated customers. The amounts claimed in these claims and lawsuits are substantial in some instances, and the ultimate liability with respect to such litigation and claims is difficult to predict. The Company's management considers these cases to be ordinary, routine litigation incidental to its business, believes the Company and its subsidiaries have meritorious defenses to each of them and is defending, or intends to defend, them vigorously. While management cannot provide assurance the Company and its subsidiaries will ultimately prevail in each instance, management believes that amounts, if any, required to be paid by the Company and its subsidiaries in the discharge of liabilities or settlements will not have a material adverse effect on the Company's consolidated results of operations or financial position. Regardless of outcome, claims and litigation can adversely affect the Company and its subsidiaries due to defense costs, diversion of management and publicity related to such matters.

10. Guarantee Obligations

Option One Mortgage Corporation provides a guarantee up to a maximum amount equal to approximately 10% of the aggregate principal balance of mortgage loans held by the Trusts (Qualified Special Purpose Entities) before ultimate disposition of the loans by the Trusts. This guarantee would be called upon in the event adequate proceeds were not available from the sale of the mortgage loans to satisfy the current or ultimate payment obligations of the Trusts. No losses have been sustained on this commitment since its inception. The total principal amount of Trust obligations outstanding as of January 31, 2003 and April 30, 2002 was \$2,262,492 and \$1,080,047, respectively. The fair value of mortgage loans held by the Trusts as of January 31, 2003 and April 30, 2002 was \$2,360,005 and \$1,126,381, respectively.

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In addition, the agreements relating to the sale or securitization of mortgage loans include various indemnifications that in certain instances require the repurchase of mortgage loans or other remedies. The Company has recorded liabilities relating to these obligations of \$26,646 and \$10,393 at January 31, 2003 and April 30, 2002, respectively. These liabilities are included in accrued expenses on the accompanying Consolidated Balance Sheets.

The Company and its subsidiaries have various contingent purchase price obligations in connection with prior acquisitions. In many cases, contingent payments to be made in connection with those acquisitions are not subject to a stated limit. The Company estimates the potential payments (undiscounted) total approximately \$52,619 as of January 31, 2003. The Company's estimate is based on current financial conditions. Should actual results differ materially from the Company's assumptions, the potential payments will differ from the above estimate. Such payments, if and when paid, would be recorded as additional goodwill.

The Company and its subsidiaries also routinely enter into contracts that include embedded indemnifications that have characteristics similar to guarantees. Other guarantees and indemnifications of the Company and its subsidiaries include obligations to protect counter parties from losses arising from the following: a) tax, legal and other risks related to the purchase or disposition of businesses; b) penalties and interest assessed by Federal and state taxing authorities in connection with tax returns prepared for clients; and c) third-party claims relating to various arrangements in the normal course of business. Typically, there is no stated maximum payment related to these indemnifications, and the term of indemnities may vary and in many cases is limited only by the applicable statute of limitations. The likelihood of any claims being asserted against the Company or its subsidiaries and the ultimate liability related to any such claims, if any, is difficult to predict. While management cannot provide assurance the Company and its subsidiaries will ultimately prevail in the event any such claims are asserted, management believes the fair value of these guarantees and indemnifications is not material as of January 31, 2003.

The Company offers separately priced warranties to tax clients whereby the Company will assume the cost of additional tax assessments attributable to tax return preparation error. The Company defers a portion of the revenue associated with these warranties, and recognizes these amounts over the term of the warranty based upon historical claims data. The related liability is included in accrued expenses on the Consolidated Balance Sheets and the changes in deferred revenue liability for the nine-month periods ended January 31, 2003 and 2002 and the twelve months ended April 30, 2002 are as follows:

	Nine Months Ended January 31,		Year Ended April 30,
	2003	2002	2002
Balance, beginning of year	\$ 44,982	\$ 31,483	\$ 31,483
Amounts deferred for new warranties issued	7,592	7,865	28,945
Revenue recognized on previous deferrals	(17,809)	(10,704)	(15,446)
Balance, end of period	\$ 34,765	\$ 28,644	\$ 44,982

11. Condensed Consolidating Financial Statements

Block Financial Corporation (BFC) is an indirect, wholly-owned subsidiary of the Company. BFC is the Issuer and the Company is the Guarantor of the Senior Notes issued on October 21, 1997 and April 13, 2000. These condensed consolidating financial statements have been prepared using the equity method of accounting. Earnings of subsidiaries are, therefore, reflected in the Company's investment in subsidiaries account. The elimination entries eliminate investments in subsidiaries, related stockholder's equity and other intercompany balances and transactions.

Condensed Consolidating Statements of Operations

	Three months ended January 31, 2003				
	H&R Block, Inc. (Guarantor)	BFC (Issuer)	Other Subsidiaries	Elims	Consolidated H&R Block
Total revenues	\$ —	\$484,901	\$ 473,597	\$ (85)	\$ 958,413
Expenses:					
Compensation & benefits	—	105,387	246,785	37	352,209
Occupancy & equipment	—	19,780	67,569	—	87,349
Interest	—	13,960	10,857	—	24,817
Depreciation & amortization	—	20,490	22,180	—	42,670
Marketing & advertising	—	9,999	45,486	(154)	55,331
Supplies, freight & postage	—	8,167	24,987	—	33,154
Other	—	76,035	66,626	(70)	142,591
	—	253,818	484,490	(187)	738,121
Operating earnings (loss)	—	231,083	(10,893)	102	220,292
Other income, net	222,934	—	2,642	(222,934)	2,642
Earnings (loss) before income taxes (benefit)	222,934	231,083	(8,251)	(222,832)	222,934
Income taxes (benefit)	90,621	93,931	(3,354)	(90,577)	90,621
Net earnings (loss)	\$ 132,313	\$137,152	\$ (4,897)	\$(132,255)	\$ 132,313

Three months ended January 31, 2002

	H&R Block, Inc. (Guarantor)	BFC (Issuer)	Other Subsidiaries	Elims	Consolidated H&R Block
Total revenues	\$ —	\$290,939	\$ 444,884	\$ (2,291)	\$ 733,532
Expenses:					
Compensation & benefits	—	82,464	238,889	—	321,353
Occupancy & equipment	—	14,711	57,967	—	72,678
Interest	—	24,175	6,558	—	30,733
Depreciation & amortization	—	17,667	20,500	—	38,167
Marketing & advertising	—	6,441	45,564	(100)	51,905
Supplies, freight & postage	—	3,402	18,606	—	22,008
Other	—	86,245	63,788	(2,291)	147,742
	—	235,105	451,872	(2,391)	684,586
Operating earnings (loss)	—	55,834	(6,988)	100	48,946
Other income, net	49,774	—	828	(49,774)	828
Earnings (loss) before income taxes (benefit)	49,774	55,834	(6,160)	(49,674)	49,774
Income taxes (benefit)	20,158	22,675	(2,557)	(20,118)	20,158
Net earnings (loss)	\$ 29,616	\$ 33,159	\$ (3,603)	\$ (29,556)	\$ 29,616

Nine months ended January 31, 2003

	H&R Block, Inc. (Guarantor)	BFC (Issuer)	Other Subsidiaries	Elims	Consolidated H&R Block
Total revenues	\$ —	\$1,121,858	\$ 739,547	\$ (230)	\$1,861,175
Expenses:					
Compensation & benefits	—	294,779	496,553	360	791,692
Occupancy & equipment	—	51,199	172,443	—	223,642
Interest	—	47,690	22,099	—	69,789
Depreciation & amortization	—	58,027	56,711	—	114,738
Marketing & advertising	—	22,561	63,237	(463)	85,335
Supplies, freight & postage	—	16,724	38,748	—	55,472
Impairment of goodwill	—	24,000	—	—	24,000
Texas litigation reserve	—	—	41,672	—	41,672
Other	—	185,195	129,971	(538)	314,628
	—	700,175	1,021,434	(641)	1,720,968
Operating earnings (loss)	—	421,683	(281,887)	411	140,207
Other income, net	144,783	—	4,576	(144,783)	4,576
Earnings (loss) before income taxes (benefit)	144,783	421,683	(277,311)	(144,372)	144,783
Income taxes (benefit)	59,361	180,671	(121,478)	(59,193)	59,361
Net earnings (loss)	\$ 85,422	\$ 241,012	\$ (155,833)	\$ (85,179)	\$ 85,422

Nine months ended January 31, 2002

	H&R Block, Inc. (Guarantor)	BFC (Issuer)	Other Subsidiaries	Elims	Consolidated H&R Block
Total revenues	\$ —	\$757,341	\$ 681,412	\$ (2,344)	\$1,436,409
Expenses:					
Compensation & benefits	—	237,621	460,448	—	698,069
Occupancy & equipment	—	45,611	148,495	—	194,106
Interest	—	78,920	11,403	—	90,323
Depreciation & amortization	—	51,316	55,779	—	107,095
Marketing & advertising	—	14,293	60,975	(302)	74,966
Supplies, freight & postage	—	10,630	27,421	—	38,051
Other	—	172,193	116,184	(2,344)	286,033
	—	610,584	880,705	(2,646)	1,488,643
Operating earnings (loss)	—	146,757	(199,293)	302	(52,234)
Other income, net	(49,041)	—	3,193	49,041	3,193
Earnings (loss) before income taxes (benefit)	(49,041)	146,757	(196,100)	49,343	(49,041)
Income taxes (benefit)	(19,862)	60,212	(80,196)	19,984	(19,862)
Net earnings (loss)	\$ (29,179)	\$ 86,545	\$(115,904)	\$29,359	\$ (29,179)

Condensed Consolidating Balance Sheets

January 31, 2003

	H&R Block, Inc. (Guarantor)	BFC (Issuer)	Other Subsidiaries	Elims	Consolidated H&R Block
Cash & cash equivalents	\$ —	\$ 175,985	\$ 260,933	\$ —	\$ 436,918
Cash & equivalents-restricted	—	405,733	12,988	—	418,721
Receivables from customers, brokers and dealers	—	546,251	—	—	546,251
Receivables	699	174,367	290,129	—	465,195
Intangible assets and goodwill	—	498,416	578,109	—	1,076,525
Investments in subsidiaries	3,037,949	205	1,263	(3,037,949)	1,468
Other assets	—	1,082,987	220,206	965	1,304,158
Total assets	\$ 3,038,648	\$2,883,944	\$ 1,363,628	\$(3,036,984)	\$4,249,236
Notes payable	\$ —	\$ 586,803	\$ —	\$ —	\$ 586,803
Accts. payable to customers, brokers and dealers	—	823,890	—	—	823,890
Long-term debt	—	747,387	134,882	—	882,269
Other liabilities	1,143	423,408	364,941	(708)	788,784
Net intercompany advances	1,870,015	(438,782)	(1,432,494)	1,261	—
Stockholders' equity	1,167,490	741,238	2,296,299	(3,037,537)	1,167,490
Total liabilities and stockholders' equity	\$ 3,038,648	\$2,883,944	\$ 1,363,628	\$(3,036,984)	\$4,249,236

April 30, 2002

	H&R Block, Inc. (Guarantor)	BFC (Issuer)	Other Subsidiaries	Elims	Consolidated H&R Block
Cash & cash equivalents	\$ —	\$ 197,959	\$ 238,186	\$ —	\$ 436,145
Cash & equivalents-restricted	—	140,180	11,993	—	152,173
Receivables from customers, brokers and dealers	—	844,538	—	—	844,538
Receivables	151	157,747	210,447	—	368,345
Intangible assets and goodwill	—	544,391	562,550	—	1,106,941
Investments in subsidiaries	2,973,936	215	1,609	(2,973,936)	1,824
Other assets	—	1,006,531	314,381	(87)	1,320,825
Total assets	\$ 2,974,087	\$2,891,561	\$ 1,339,166	\$(2,974,023)	\$4,230,791
Accts. payable to customers, brokers and dealers	\$ —	\$ 903,201	\$ —	\$ —	\$ 903,201
Long-term debt	—	746,900	121,487	—	868,387
Other liabilities	6,032	335,687	748,347	(283)	1,089,783
Net intercompany advances	1,598,635	373,975	(1,972,935)	325	—
Stockholders' equity	1,369,420	531,798	2,442,267	(2,974,065)	1,369,420
Total liabilities and stockholders' equity	\$ 2,974,087	\$2,891,561	\$ 1,339,166	\$(2,974,023)	\$4,230,791

Condensed Consolidating Statements of Cash Flows

Nine months ended January 31, 2003

	H&R Block, Inc. (Guarantor)	BFC (Issuer)	Other Subsidiaries	Elims	Consolidated H&R Block
Net cash provided by (used in) operating activities:	\$ 27,060	\$ (21,514)	\$(372,295)	\$—	\$ (366,749)
Cash flows from investing:					
Purchase of AFS securities	—	(10,577)	—	—	(10,577)
Cash received on residuals	—	117,522	—	—	117,522
Proceeds from sale of residuals previously securitized	—	142,486	—	—	142,486
Maturities of AFS securities	—	7,730	2,000	—	9,730
Purchase property & equipment	—	(30,149)	(65,480)	—	(95,629)
Payments for business acq	—	—	(24,239)	—	(24,239)
Net intercompany advances	271,380	(812,757)	541,377	—	—
Other, net	—	(1,518)	(4,486)	—	(6,004)
Net cash provided by (used in) investing activities	271,380	(587,263)	449,172	—	133,289
Cash flows from financing:					
Repayments of notes payable	—	(9,301,285)	—	—	(9,301,285)
Proceeds from notes payable	—	9,888,088	—	—	9,888,088
Payments on acquisition debt	—	—	(52,107)	—	(52,107)
Dividends paid	(93,645)	—	—	—	(93,645)
Payments to acquire treasury shares	(317,608)	—	—	—	(317,608)
Proceeds from issuance of common stock	112,813	—	—	—	112,813
Other, net	—	—	(2,023)	—	(2,023)
Net cash provided by (used in) financing activities	(298,440)	586,803	(54,130)	—	234,233
Net increase (decrease) in cash	—	(21,974)	22,747	—	773
Cash — beginning of period	—	197,959	238,186	—	436,145
Cash — end of period	\$ —	\$ 175,985	\$ 260,933	\$—	\$ 436,918

Nine months ended January 31, 2002

	H&R Block, Inc. (Guarantor)	BFC (Issuer)	Other Subsidiaries	Elims	Consolidated H&R Block
Net cash provided by (used in) operating activities	\$ 53,842	\$ (491,974)	\$(482,716)	\$—	\$ (920,848)
Cash flows from investing:					
Purchase of AFS securities	—	—	(3,695)	—	(3,695)
Cash received on residuals	—	33,006	—	—	33,006
Maturities of AFS securities	—	—	28,203	—	28,203
Purchase property & equipment	—	(27,954)	(43,389)	—	(71,343)
Payments for business acq	—	—	(44,397)	—	(44,397)
Net intercompany advances	197,895	(803,705)	605,810	—	—
Other, net	—	—	(8,538)	—	(8,538)
Net cash provided by (used in) investing activities	197,895	(798,653)	533,994	—	(66,764)
Cash flows from financing:					
Repayments of notes payable	—	(6,147,398)	—	—	(6,147,398)
Proceeds from notes payable	—	7,786,230	—	—	7,786,230
Payments on acquisition debt	—	—	(49,479)	—	(49,479)
Dividends paid	(86,349)	—	—	—	(86,349)
Payments to acquire treasury shares	(352,213)	—	—	—	(352,213)
Proceeds from issuance of common stock	186,825	—	—	—	186,825
Other, net	—	—	688	—	688
Net cash provided by (used in) financing activities	(251,737)	1,638,832	(48,791)	—	1,338,304
Net increase in cash	—	348,205	2,487	—	350,692
Cash — beginning of period	—	82,942	104,674	—	187,616
Cash — end of period	\$ —	\$ 431,147	\$ 107,161	\$—	\$ 538,308

12. Subsequent Event

On February 24, 2003, the Company declared a cash dividend of \$.18 per share to shareholders of record as of March 11, 2003, payable on April 1, 2003.

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

GENERAL

H&R Block, Inc. is a diversified company with subsidiaries that deliver tax services, investment and mortgage products and services, and business, accounting and consulting services. For nearly 50 years, the Company has been developing relationships with millions of tax clients and its strategy is to expand on these relationships.

H&R Block's Mission:

To help our clients achieve their financial objectives by serving as their tax and financial partner.

H&R Block's Vision:

To be the world's leading provider of financial services through tax and accounting based advisory relationships.

Overview of Reportable Operating Segments

The principal business activity of the Company's operating subsidiaries is providing tax and other services to the general public. The Company does business in the following reportable operating segments:

U.S. Tax Operations: This segment primarily consists of the Company's tax businesses – which served 17.1 million taxpayers in its retail tax offices in fiscal year 2002, more than any other tax services company.

International Tax Operations: This segment is primarily engaged in providing local tax return preparation, filing and related services in Canada, Australia and the United Kingdom.

Mortgage Operations: This segment is primarily engaged in the origination and sale of mortgage loans and related assets and provides servicing for non-prime loans.

Investment Services: This segment is primarily engaged in offering investment advice and related financial services and securities products.

Business Services: This segment is primarily engaged in providing accounting, tax, consulting, payroll, employee benefits and capital markets services to business clients and tax, estate planning, financial planning, wealth management and insurance services to individuals.

RESULTS OF OPERATIONS

The analysis that follows should be read in conjunction with the tables below and the Consolidated Statements of Operations found on page 2. All amounts in the following tables are in thousands, except as noted.

GAAP and Non-GAAP Financial Measures

GAAP refers to accounting principles generally accepted in the United States of America. Throughout this Management's Discussion and Analysis of Results of Operations and Financial Condition, management discusses financial measures in accordance with GAAP and also on a non-GAAP basis. Non-GAAP financial measures presented herein include cash earnings and free cash flow. Further discussion of non-GAAP financial measures, including reconciliations of GAAP to non-GAAP financial measures, is included on pages 58 and 59.

General

During the third quarter, the Company completed the sale of \$206.6 million of residual interests from prior securitizations. The transaction, which closed on November 15, 2002, resulted in a pretax gain of \$130.9 million, or \$.43 per diluted share. This gain is reflected as a separate line item in the Consolidated Statements of Operations, and in the Mortgage Operations segment, where applicable.

Also during the third quarter, the Company entered into an agreement with Household Tax Masters Inc. (Household), the servicer of refund anticipation loans (RALs), whereby the Company waived its right to purchase any participation interests in and receive license fees for RALs during the period January 1 through April 30, 2003. In consideration for waiving such rights, the Company will receive, during such period, a series of payments from Household totaling \$133.0 million, subject to certain adjustments based on delinquency rates. As a result, RAL participation and related revenues for the third quarter declined approximately \$6.0 million compared to the prior year.

Consolidated H&R Block, Inc.

Consolidated H&R Block, Inc. — Three-Month Results

	Three months ended		
	January 31, 2003	January 31, 2002	October 31, 2002
Revenues	\$958,413	\$733,532	\$471,396
Pretax earnings (loss)	222,934	49,774	(62,245)
Net earnings (loss)	\$132,313	\$ 29,616	\$ (37,347)
Basic earnings (loss) per share	\$.74	\$.16	\$ (.21)
Diluted earnings (loss) per share	\$.73	\$.16	\$ (.21)

Three months ended January 31, 2003 compared to January 31, 2002

Consolidated revenues for the three months ended January 31, 2003 were \$958.4 million, an increase of \$224.9 million, or 30.7%, over the prior year. This increase is primarily due to the Mortgage Operations segment, which increased revenues \$217.2 million. Also contributing to the improvement was U.S. Tax Operations, with an increase of \$31.7 million. These increases were partially offset by declines in revenues from Investment Services and Business Services of \$13.0 million and \$6.3 million, respectively.

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The Company reported pretax earnings of \$222.9 million for the third quarter of fiscal year 2003 compared to \$49.8 million in the prior year, an increase of \$173.2 million. Mortgage Operations reported earnings of \$262.5 million for the three months ended January 31, 2003, \$185.0 million better than 2002, primarily as a result of the \$130.9 million gain recorded on the sale of residual interests previously securitized, coupled with increased loan production volumes. Pretax earnings for U.S. Tax Operations increased \$8.9 million, or 35.0%. These improvements were partially offset by increased losses from Investment Services and Business Services of \$19.5 million and \$6.0 million, respectively.

The effective income tax rate for the three months ended January 31, 2003 was 40.7%, compared to 40.5% and 39.4% for the three months ended January 31, 2002 and full fiscal year 2002, respectively. The increase in the effective income tax rate over the full fiscal year 2002 is primarily the result of the non-deductible goodwill impairment charge recorded in the first and second quarters of fiscal year 2003. The full fiscal year 2002 effective tax rate of 39.4% was lower than the 40.5% effective tax rate recorded in the third quarter of fiscal year 2002 primarily due to fourth quarter earnings in fiscal 2002 exceeding the estimate on which the third quarter of fiscal year 2002 effective tax rate was based.

The Company's net earnings were \$132.3 million, or \$.73 per diluted share compared to \$29.6 million, or \$.16 per diluted share in the third quarter of fiscal year 2002.

In addition, the Company continues to measure its performance based on the calculation of earnings excluding the after-tax impact of amortization of acquired intangible assets and goodwill impairment. Net earnings, excluding the after-tax impact of these expenses, was \$142.3 million, or \$.78 per diluted share in the third quarter, compared to \$39.4 million, or \$.21 per diluted share in last year's third quarter. This calculation is a non-GAAP financial measure.

Due to the seasonal nature of the Company's business, results for the three months ended January 31, 2003 are not comparable to the three months ended October 31, 2002.

Consolidated H&R Block, Inc. — Nine-Month Results

	Nine months ended	
	January 31, 2003	January 31, 2002
Revenues	\$1,861,175	\$1,436,409
Pretax earnings (loss)	144,783	(49,041)
Net earnings (loss)	\$ 85,422	\$ (29,179)
Basic earnings (loss) per share	\$.48	\$ (.16)
Diluted earnings (loss) per share	\$.46	\$ (.16)

Nine months ended January 31, 2003 compared to January 31, 2002

Consolidated revenues for the nine months ended January 31, 2003 were \$1.9 billion, an increase of \$424.8 million, or 29.6%. This increase is primarily due to the Mortgage Operations segment, which increased revenues \$413.0 million over the prior period. Also contributing to the improvement were U.S. Tax Operations and Business Services, with increases of \$41.4 million and \$14.1 million, respectively. These increases were partially offset by the decline in revenues from Investment Services of \$38.1 million.

The Company reported pretax earnings of \$144.8 million for the nine months ended January 31, 2003 compared to a loss of \$49.0 million in the prior year, an improvement of \$193.8 million. Mortgage Operations reported earnings of \$563.1 million, an increase of \$325.7 million over last year. Increased losses from U.S. Tax Operations, Investment Services and Business Services of \$52.1 million, \$65.0 million and \$14.4 million, respectively, offset the improvement from Mortgage Operations.

The effective income tax rate for the nine months ended January 31, 2003 was 41.0%, compared to 40.5% and 39.4% for the nine months ended January 31, 2002 and full fiscal year 2002, respectively. The increase in the effective income tax rate over the full fiscal year 2002 is primarily the result of the non-deductible goodwill impairment charges recorded in the first nine months of fiscal year 2003. The full fiscal year 2002 effective tax rate of 39.4% was lower than the 40.5% effective tax rate recorded during the nine months ended January 31, 2002, primarily due to fourth quarter earnings in fiscal year 2002 exceeding the estimate on which the fiscal year 2002 effective tax rate was based.

The Company's net earnings were \$85.4 million, or \$.46 per diluted share compared to a loss of \$29.2 million, or \$.16 per diluted share for the nine months ended January 31, 2002. Net earnings of \$85.4 million include pretax charges of \$41.7 million for the Texas litigation reserve and \$24.0 million in goodwill impairment, and a \$130.9 million pretax gain on the sale of previously securitized residual interests. The after-tax impact of these items increased net earnings \$38.5 million, or \$.21 per diluted share.

Net earnings, excluding the after-tax impact of amortization of acquired intangible assets and goodwill impairment, were \$139.5 million, or \$.76 per diluted share for the nine months ended January 31, 2003, compared to a loss of \$492 thousand for the nine months ended January 31, 2002.

U.S. Tax Operations

This segment is primarily engaged in providing tax return preparation, filing and related services in the United States. Segment revenues include fees earned for tax-related services performed at company-owned tax offices and royalties from franchise offices. This segment also includes the Company's tax preparation software — TaxCut® from H&R Block, other personal productivity software, online tax preparation through a tax professional (whereby the client completes an online tax organizer and sends it to a tax professional for preparation), online do-it-yourself tax preparation, online professional tax review and online tax advice through the hrblock.com website.

In addition, the Company offers RAL products to its tax clients through a relationship with Household. In previous years, the Company purchased participation interests in RALs (49.9%)

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for RALs facilitated at company-owned offices and franchise offices and 25.0% for RALs facilitated in major franchise offices). Revenue from participation was calculated as the Company's percentage participation multiplied by a fee paid by the customer to Household. During the third quarter of fiscal year 2003, the Company entered into an agreement with Household, whereby the Company waived its right to purchase any participation interests in and receive license fees for RALs during the period January 1 through April 30, 2003. In consideration for waiving such rights the Company will receive, during such period, a series of payments from Household totaling \$133.0 million subject to certain adjustments based on delinquency rates, with payments received under this arrangement recognized as revenue over the term of the waiver period. As of March 14, 2003, \$124.5 million of the total waiver payments had been received.

Due to the seasonal nature of this segment's business, three and nine-month results are not indicative of the expected results for the entire fiscal year.

*U.S. Tax Operations -Operating Statistics for company-owned operations
(in 000s except average fee and offices)*

	Period January 1 through January 31,	
	2003	2002
Tax returns prepared	2,202	2,133
Clients served:		
Company-owned offices	2,218	2,152
E-commerce	239	143
Tax returns filed electronically:		
Company-owned offices	2,159	2,084
E-commerce	167	119
Average fee per client served (in offices)	\$ 129.71	\$ 120.89
Average fee per tax return (in offices)	\$ 106.94	\$ 97.48
Refund anticipation loans (RALs):		
Company-owned offices (1)	1,146	1,092
E-commerce (1)	19	8
Offices	5,279	5,017

(1) Includes only RALs processed and funded. Prior year numbers, as originally reported, included RAL applications processed.

U.S. Tax Operations — Three-Month Results

	Three months ended		
	January 31, 2003	January 31, 2002	October 31, 2002
Tax preparation and related fees	\$289,635	\$270,024	\$ 13,370
Royalties	38,211	32,429	1,402
RAL participation fees	37	30,154	5
RAL waiver fees	31,676	—	—
Software sales	15,704	16,072	560
Other	28,308	23,195	18,092
Total revenues	403,571	371,874	33,429
Compensation and benefits	151,251	150,765	36,677
Occupancy and equipment	50,180	43,954	37,241
Depreciation and amortization	10,188	8,982	6,387
Cost of software sales	10,240	8,690	330
Bad debt expense	16,302	24,072	812
Supplies, freight and postage	13,454	7,903	4,204
Texas litigation reserve	—	—	41,672
Other	32,765	29,174	19,801
Allocated corporate and shared costs:			
Information technology	21,896	18,020	18,524
Marketing	39,601	28,687	6,732
Finance	5,532	2,301	4,760
Supply	12,049	7,213	3,284
Other	5,976	16,833	5,304
Total expenses	369,434	346,594	185,728
Pretax earnings (loss)	\$ 34,137	\$ 25,280	\$(152,299)

Three months ended January 31, 2003 compared to January 31, 2002

U.S. Tax Operations' revenues increased \$31.7 million, or 8.5%, to \$403.6 million for the three months ended January 31, 2003, compared to the three months ended January 31, 2002.

Tax preparation and related fees increased \$19.6 million, or 7.3%, to \$289.6 million for the three months ended January 31, 2003. This increase is due to an 8.9% increase in the average charge, net of discounts, and a 3.3% increase in tax returns prepared. The net average charge increased to \$106.01 in 2003 compared to \$97.37 in 2002. Average charge is calculated as tax preparation fees, less discounts if applicable, divided by the number of tax returns prepared. Tax returns prepared in company-owned offices during the current quarter were 2.2 million, compared to 2.1 million in 2002.

Tax returns prepared and tax preparation revenues at franchise offices increased by 8.0% and 20.9%, respectively, resulting in an increase in royalty income of 17.8%.

Revenues earned during the current quarter in connection with the RAL waiver agreement totaled \$31.7 million. These revenues are approximately \$6.0 million lower than participation and related fees earned during the three months ended January 31, 2002.

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A total of 1.3 million software units were sold during the quarter ended January 31, 2003, an increase of 10.8% compared to units sold of 1.2 million in the 2002 period. Revenues from software sales of \$15.7 million in the fiscal 2003 quarter are slightly lower than revenues of \$16.1 million in the 2002 period due to increases in rebates offered and customer rebate redemption rates.

Other revenues for the three months ended January 31, 2003 were \$28.3 million, a 22.0% improvement over 2002, principally due to an increase of \$3.4 million in supply sales to franchisees.

Total expenses for the three months ended January 31, 2003 were \$369.4 million, up \$22.8 million, or 6.6%, from 2002. Occupancy and equipment costs increased \$6.2 million due primarily to a 4.5% increase in the number of offices under lease and a 5% increase in average rents paid. Other expenses in the current quarter increased \$3.6 million over 2002 primarily due to increased legal and marketing costs, partially offset by reduced servicing expenses due to the RAL waiver agreement. Allocated marketing expenses increased \$10.9 million, or 38.0%, to \$39.6 million for the quarter ended January 31, 2003, primarily due to acceleration of certain tax season advertisements during the current period, which in the prior fiscal year occurred in the fourth quarter. Offsetting these increases, bad debt expense declined by \$7.8 million as a result of \$2.1 million collected on RAL receivables previously written off and the elimination of bad debt related to RAL participations. In the prior year, \$5.1 million in RAL bad debt expense was recorded.

Pretax earnings of \$34.1 million for the three months ended January 31, 2003, represent a 35.0% improvement over 2002 earnings of \$25.3 million.

Due to the seasonal nature of this segment's business, operating results for the three months ended January 31, 2003 are not comparable to the three months ended October 31, 2002.

Although tax returns prepared through January 31, 2003 increased by 3.3% over the comparable 2002 period, returns prepared through February have declined. Tax returns prepared in company-owned offices during the period January 1 through February 28, 2003, declined 3.7% compared to the same period last year. Despite the decline in units, tax preparation and related fees for company-owned offices for the same period increased 4.1% compared to last year due to increases in the complexity of returns prepared and, consequently, the average charge.

U.S. Tax Operations — Nine-Month Results

	Nine months ended	
	January 31, 2003	January 31, 2002
Tax preparation and related fees	\$ 314,013	\$ 291,814
Royalties	40,529	34,995
RAL participation fees	319	30,450
RAL waiver fees	31,676	—
Software sales	17,135	17,567
Other	56,614	44,089
Total revenues	460,286	418,915
Compensation and benefits	214,462	208,325
Occupancy and equipment	124,611	110,908
Depreciation and amortization	22,713	23,715
Cost of software sales	10,923	9,461
Bad debt expense	18,018	23,911
Supplies, freight and postage	19,206	12,590
Texas litigation reserve	41,672	—
Other	64,465	52,266
Allocated corporate and shared costs:		
Information technology	56,122	51,184
Marketing	51,402	38,839
Finance	14,500	7,964
Supply	17,634	12,626
Other	16,750	27,239
Total expenses	672,478	579,028
Pretax loss	\$(212,192)	\$(160,113)

Nine months ended January 31, 2003 compared to January 31, 2002

U.S. Tax Operations' revenues increased \$41.4 million, or 9.9%, to \$460.3 million for the nine months ended January 31, 2003, compared to the nine months ended January 31, 2002.

Tax preparation and related fees increased \$22.2 million, or 7.6%, to \$314.0 million for the nine months ended January 31, 2003. The increase is due to an 8.6% increase in the average charge, net of discounts, on tax returns prepared. The net average charge increased to \$109.89 in 2003 compared to \$101.19 in 2002.

RAL participation fees declined as a result of the RAL waiver agreement.

Other revenues for the nine months ended January 31, 2003 were \$56.6 million, an increase of \$12.5 million, or 28.4%, over 2002. This improvement was primarily the result of an additional \$7.1 million in deferred warranty revenues recognized and an increase of \$4.5 million in supply sales to franchisees.

Total expenses for the nine months ended January 31, 2003 were \$672.5 million, an increase of \$93.5 million, or 16.1%. Increased expenses were primarily attributable to an estimated

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settlement reserve of \$41.7 million recorded during the second quarter of 2003 relating to Texas RAL litigation. Occupancy and equipment costs increased \$13.7 million to \$124.6 million in the current period, due to an increased number of offices under lease and increases in average rent. Other expenses increased \$12.2 million to \$64.5 million primarily due to increased legal, consulting and marketing expenses, partially offset by reduced servicing expenses due to the RAL waiver agreement. Allocated marketing expenses increased \$12.6 million, or 32.3%, to \$51.4 million for the quarter ended January 31, 2003, primarily due to acceleration of certain tax season advertisements into the current period, which in the prior fiscal year occurred in the fourth quarter. These increases were partially offset by a decline of \$5.9 million in bad debt expense, due to collections of \$2.1 million on receivables previously written off and the elimination of bad debt expense associated with RAL participations.

The pretax loss of \$212.2 million for the nine months ended January 31, 2003, which includes the Texas litigation reserve charge of \$41.7 million, was \$52.1 million higher than the 2002 pretax loss of \$160.1 million.

International Tax Operations

This segment is primarily engaged in providing local tax return preparation, filing and related services in Canada, Australia and the United Kingdom. In addition, Overseas operations include company-owned and franchise offices in eight countries that prepare U.S. tax returns for U.S. citizens living abroad. This segment served 2.3 million taxpayers in fiscal year 2002. Segment revenues include fees earned for tax-related services performed at company-owned tax offices and royalties from franchise offices.

The Company's operations in this segment are transacted in the local currencies of the countries in which it operates; therefore, the results can be affected by the translation of local currency results into U.S. dollars. The strengthening of the U.S. dollar, primarily in Australia, during fiscal year 2003 had the effect of increasing revenues and decreasing losses compared to the prior year.

Due to the seasonal nature of this segment's business, three and nine-month results are not indicative of the expected results for the entire fiscal year. The Canadian tax season is from January to April, the Australian tax season is from July to October and the United Kingdom's tax season is from August to March.

International Tax Operations — Three-Month Results

	Three months ended		
	January 31, 2003	January 31, 2002	October 31, 2002
Canada	\$ 2,376	\$ 2,625	\$ 2,529
Australia	5,720	4,978	12,345
United Kingdom	435	238	329
Overseas	248	136	123
Total revenues	8,779	7,977	15,326
Canada	(6,139)	(5,308)	(4,260)
Australia	1,243	1,151	5,030
United Kingdom	(98)	(314)	(193)
Overseas	(229)	(220)	(359)
Allocated corporate and shared costs	(512)	(551)	(468)
Pretax loss	\$ (5,735)	\$ (5,242)	\$ (250)

Three months ended January 31, 2003 compared to January 31, 2002

International Tax Operations' revenues for the three months ended January 31, 2003 increased \$0.8 million, or 10.1%, to \$8.8 million, compared to the three months ended January 31, 2002. This improvement is primarily due to results in Australia, where tax returns prepared in the current quarter increased 2.3% compared to the prior year and the average charge per return increased 2.1%.

The pretax loss of \$5.7 million for the quarter ended January 31, 2003, was 9.4% worse than the pretax loss of \$5.2 million recorded in the third quarter last year. This decline is primarily due to an increased loss from Canadian operations due to higher bad debt, legal fees incurred for new business initiatives, and data communication costs.

Due to the seasonal nature of this segment's business, operating results for the three months ended January 31, 2003 are not comparable to the three months ended October 31, 2002.

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International Tax Operations — Nine-Month Results

	Nine months ended	
	January 31, 2003	January 31, 2002
Canada	\$ 7,710	\$ 8,214
Australia	18,957	16,468
United Kingdom	1,077	1,109
Overseas	644	659
Total revenues	28,388	26,450
Canada	(14,629)	(12,772)
Australia	4,694	3,661
United Kingdom	(429)	(889)
Overseas	(685)	(199)
Allocated corporate and shared costs	(1,387)	(1,687)
Pretax loss	\$ (12,436)	\$ (11,886)

Nine months ended January 31, 2003 compared to January 31, 2002

International Tax Operations' revenues for the nine months ended January 31, 2003 increased \$1.9 million, or 7.3%, to \$28.4 million compared to the nine months ended January 31, 2002. This improvement is primarily due to results in Australia, where tax returns prepared in the current period increased 3.3% compared to 2002, and the average charge per return increased 4.4%.

The pretax loss of \$12.4 million for the nine months ended January 31, 2003 is 4.6% greater than the pretax loss of \$11.9 million for the same period last year. The increased loss is primarily from Canadian operations, due to a decline in off-season tax revenue, and increases in bad debt, additional legal fees incurred for new business initiatives, and data communication costs. Canadian operating losses were partially offset by improved performance in Australia that was primarily attributable to increased volume.

Mortgage Operations

Through Option One Mortgage Corporation and H&R Block Mortgage Corporation, this segment is primarily engaged in the origination and sale of mortgage loans and related assets and provides servicing for non-prime loans. This segment engages in four principal activities: wholesale loan origination and sale, retail loan origination and sale, loan servicing and capital markets. The Company manages this segment to optimize cash flows from operations while at the same time minimizing risks associated with loan performance.

Wholesale loan origination and sale: This activity offers, through a network of mortgage brokers, a flexible product line to borrowers who are creditworthy but do not meet traditional underwriting criteria (non-prime). The primary source of revenue for this activity is the recognition of gains on sales of mortgage loans. The mortgage loans are sold daily in a whole loan sale to third-party trusts (Trusts), until they are ultimately disposed of, either through a securitization or sale to a third-party whole loan buyer by the Trusts.

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Retail loan origination and sale: This activity offers prime mortgage loan products, as well as non-prime mortgage loan products, through some H&R Block Financial Advisors branch offices, H&R Block Mortgage Corporation retail offices and through telemarketing operations. The primary source of revenue for this activity is the recognition of gains on sales of mortgage loans. Prime mortgage loans are sold in whole loan sales to third-party buyers, and non-prime loans are sold to the Trusts for disposition, either through a securitization or sale to a third-party whole loan buyer by the Trusts.

Loan servicing: This activity primarily services non-prime mortgage loans originated from wholesale and retail operations. The primary source of revenue for this activity is the recognition of servicing and late fee income.

Capital markets activity: This activity includes residual interests in securitized mortgage loans for which cash flows are received over the life of the loans. These residual interests are subsequently securitized in the form of a NIM transaction, and result in the receipt of a substantial portion of the cash from the residual interest at the closing of the NIM transaction, rather than over the actual life of the loans. Residuals retained from NIM securitizations may also be bundled and sold in a subsequent securitization once the NIM bondholders are paid. The primary source of revenue for this activity consists of accretion of residual interests and the sale of residual interests. Offsetting these revenues are realized write-downs of residual interests, which are recorded as reductions of revenues.

One of the Company's core strategic objectives is creating a financial partnership with its tax clients through delivery of advice, coupled with the products and services needed to act on that advice. The Company's initiative to serve the mortgage needs of its tax clients through its retail mortgage operations resulted in 42.6% of all retail loans, and 8.1% of all loans originated during the quarter, coming from H&R Block tax clients, compared to 39.6% and 7.5%, respectively, in the same period last year. In its February 24, 2003 press release announcing third quarter financial results, the Company reported that 42.5% of all retail loans and 10.6% of all loans originated during the quarter came from H&R Block tax clients. The press release posted on the Company's website has been corrected to reflect the 42.6% and 8.1% actual results reported above.

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Mortgage Operations — Three-Month Operating Statistics
(in 000s except # of loans originated and serviced, and servicing portfolio)

	Three months ended		
	January 31, 2003	January 31, 2002	October 31, 2002
Number of loans originated:			
Wholesale (non-prime)	25,061	17,344	21,536
Retail:			
Prime	3,560	2,229	3,089
Non-prime	2,284	1,827	2,754
Total	30,905	21,400	27,379
Volume of loans originated:			
Wholesale (non-prime)	\$3,756,809	\$2,346,687	\$3,083,895
Retail:			
Prime	496,176	337,993	444,469
Non-prime	280,738	211,119	351,694
Total	\$4,533,723	\$2,895,799	\$3,880,058
Loan sales	\$4,599,255	\$2,868,690	\$3,821,649
Number of loans serviced (millions)	233.0	202.4	220.8
Average servicing portfolio (billions)	\$ 26.9	\$ 20.3	\$ 26.2
Closing ratio (2)	57.3%	50.7%	49.8%
Weighted average FICO score (2)	605.9	596.7	604.3
Execution price — Net gain on sale (1), (2)	4.60%	3.82%	4.78%
Weighted average coupon rate for borrowers (2)	7.94%	8.82%	8.24%
Weighted average loan-to-value (2)	78.6%	77.7%	79.1%

(1) Defined as total premium received divided by total balance of loans delivered (excluding mortgage servicing rights).

(2) Represents non-prime production.

Mortgage Operations — Three-Month Operating Results

	Three months ended		
	January 31, 2003	January 31, 2002	October 31, 2002
Components of gain on sale:			
Gain on sale of mortgage assets:			
Mortgage loans and related assets	\$176,940	\$120,971	\$155,079
Residual interests previously securitized	130,881	—	—
Write-downs of residual interests	(1,457)	(13,089)	(3,702)
Total gain on sale	306,364	107,882	151,377
Accretion income:			
Residual interests	11,157	5,041	16,768
Realized gains on residual write-ups	9,136	11,301	37,324
Total accretion income	20,293	16,342	54,092
Interest income	26,357	20,508	27,429
Loan servicing revenue	43,372	34,335	41,325
Other	594	684	365
Total revenues	396,980	179,751	274,588
Compensation and benefits			
Variable servicing and processing	20,331	26,252	16,606
Occupancy and equipment	10,986	7,557	10,364
Interest expense	871	937	844
Bad debt expense	5,898	5,386	3,296
Other	25,746	15,667	26,785
Allocated corporate and shared costs	2,240	1,404	947
Total expenses	134,514	102,324	121,068
Pretax earnings	\$262,466	\$ 77,427	\$153,520

Three months ended January 31, 2003 compared to January 31, 2002

Mortgage Operations' revenues increased \$217.2 million, or 120.8%, to \$397.0 million for the three months ended January 31, 2003 compared to the prior year. During the current period, the Company completed the sale of \$206.6 million of residual interests from prior securitizations, resulting in a gain on sale of \$130.9 million. Revenue increased primarily as a result of this gain and higher gains on the sale of mortgage loans.

Gain on sale of mortgage loans and related assets for both wholesale and retail increased \$56.0 million to \$176.9 million for the three months ended January 31, 2003. The increase over last year is a result of a significant increase in loan origination volume and an increase in loan sale execution pricing. During the third quarter, the Company originated \$4.5 billion in mortgage loans compared to \$2.9 billion last year, an increase of 56.6%. The execution price on mortgage loan sales increased to 4.60% for the current quarter compared to 3.82% last year, primarily due to declining interest rates during the period.

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Write-downs of residual interests in securitizations of \$1.5 million were recognized in the current period, due to a decline in value of older residuals based on loan performance. Write-downs of residuals for the three months ended January 31, 2002 totaled \$13.1 million.

Accretion of residual interests of \$11.2 million for the fiscal 2003 third quarter represents an increase of \$6.1 million over 2002 quarterly accretion of \$5.0 million. This increase is due to added residual interests from loan sale activity. Accretion of realized gains on residual write-ups of \$9.1 million were recorded during the three months ended January 31, 2003, declining slightly from \$11.3 million in the year-ago quarter. The decrease in accretion of the related assets is due to the sale of previously securitized residual interests.

During the third quarter of fiscal year 2003, the Company's residual interests continued to perform better than expected primarily due to lower interest rates. The lower market interest rates resulted in a reduction in the required interest payments due bondholders, thereby allowing the NIM bondholders and residual interest holders to receive cash related to principal and interest payments, respectively, earlier than expected in the Company's valuation models. As a result of these items the Company recorded pretax mark-to-market write-up adjustments, which increased the fair value of its residual interests \$40.9 million during the quarter. These write-ups were recorded, net of deferred taxes of \$15.6 million, in other comprehensive income and will be accreted into income throughout the remaining life of those residual interests. Future changes in interest rates or other assumptions could cause additional adjustments to the fair value of the residual interests and could cause changes to the accretion of these residual interests in future periods.

Interest income increased \$5.8 million to \$26.4 million for the quarter ended January 31, 2003, due to the average balance on loans held by the Trusts increasing to \$1.9 billion from \$1.2 billion in the prior-year quarter. This increase was slightly offset by lower excess retained interest. The excess retained interest is what the Company earns on its receivable from the third-party Trusts, and is the difference between the rate on the loans and the financing costs of the Trusts during the time period the Trusts hold the loans prior to final disposition of the loans. The interest rate margin on the receivable decreased to 5.72% during the three months ended January 31, 2003, from 6.05% a year ago.

Loan servicing revenues increased \$9.0 million, or 26.3%, to \$43.4 million this year. The increase reflects a higher loan servicing portfolio. The average servicing portfolio for the three-month period ended January 31, 2003 increased \$6.6 billion, or 32.6%, to \$26.9 billion.

Total expenses for the three months ended January 31, 2003, increased \$32.2 million, or 31.5% over the year-ago quarter. This increase is primarily due to increased compensation and benefits as a result of additional employees needed to support higher loan production volumes. Variable servicing and processing expenses declined by \$5.9 million due to reserves for servicing assets recorded during the three months ended January 31, 2002, which did not reoccur in fiscal year 2003. Other expenses increased by \$10.0 million to \$25.7 million for the current quarter, primarily due to increased depreciation, marketing and consulting expenses.

Pretax earnings increased \$185.0 million to \$262.5 million for the three months ended January 31, 2003.

Three months ended January 31, 2003 compared to October 31, 2002

Mortgage Operations' revenues increased \$122.4 million, or 44.6%, for the three months ended January 31, 2003, compared to the preceding quarter. The improvement is primarily due to the gain of \$130.9 million on the sale of residual interests previously securitized, offset by reduced accretion on the lower value of residual interests.

Gain on sale of mortgage loans and related assets for both wholesale and retail increased \$21.9 million to \$176.9 million for the current quarter. This increase from the preceding quarter is primarily a result of a 16.8% increase in loans originated, offset by a decrease in execution price on loans originated and sold. The execution price on loans originated and sold for the quarter declined to 4.60% from 4.78% for the three months ended October 31, 2002, primarily as a result of a decrease in the average coupon rate.

Write-downs of residual interests in securitizations of \$1.5 million were recognized during the third quarter, due to a decline in value of older residuals based on loan performance. Write-downs on residuals for the three months ended October 31, 2002 totaled \$3.7 million.

Accretion of residual interests of \$11.2 million represents a decrease of 33.5% from the preceding quarter accretion of \$16.8 million. This decline is the result of the sale of residual interests previously securitized. Accretion of realized gains on residual write-ups declined \$28.2 million to \$9.1 million for the three months ended January 31, 2003 compared to \$37.3 million for the preceding quarter, also due to the sale of residual interests previously securitized during the current period.

Loan servicing revenues increased \$2.0 million, or 5.0%, to \$43.4 million, compared to the second quarter. The increase reflects a higher loan-servicing portfolio. The average servicing portfolio for the three months ended January 31, 2003 increased \$641 million, or 2.4%, to \$26.9 billion.

Total expenses increased \$13.4 million, or 11.1%, primarily due to increased compensation and benefit costs due to a higher number of employees needed to support increasing loan production volumes, and due to increased servicing and processing expenses.

Pretax earnings increased \$108.9 million, or 71.0%, for the three months ended January 31, 2003 compared to the preceding quarter, primarily due to the gain on sale of residual interests previously securitized.

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Mortgage Operations — Nine-Month Operating Statistics
(in 000s except # of loans originated and serviced, and servicing portfolio)

	Nine months ended	
	January 31, 2003	January 31, 2002
Number of loans originated:		
Wholesale (non-prime)	67,371	53,515
Retail:		
Prime	8,548	6,070
Non-prime	7,417	5,033
Total	<u>83,336</u>	<u>64,618</u>
Volume of loans originated:		
Wholesale (non-prime)	\$ 9,677,763	\$6,673,256
Retail:		
Prime	1,194,685	929,477
Non-prime	914,722	561,211
Total	<u>\$11,787,170</u>	<u>\$8,163,944</u>
Volume of loans acquired	\$ 633,953	\$ —
Loan sales:		
Loans originated and sold	\$11,778,634	\$8,191,794
Loans acquired and sold	633,953	—
Total	<u>\$12,412,587</u>	<u>\$8,191,794</u>
Number of loans serviced (millions)	233.0	191.7
Average servicing portfolio (billions)	\$ 26.3	\$ 19.5
Closing ratio (2)	53.2%	50.9%
Weighted average FICO score (2)	603.0	599.9
Execution price — Net gain on sale: (1)		
Loans originated and sold (2)	4.75%	4.74%
Loans acquired and sold	.18%	—
Total loans sold	4.49%	4.74%
Weighted average coupon rate for borrowers (2)	8.30%	9.22%
Weighted average loan-to-value (2)	78.9%	78.5%

(1) Defined as total premium received divided by total balance of loans delivered (excluding mortgage servicing rights).

(2) Represents non-prime production.

Mortgage Operations — Nine-Month Operating Results

	Nine months ended	
	January 31, 2003	January 31, 2002
Components of gain on sale:		
Gain on sale of mortgage assets:		
Mortgage loans and related assets	\$497,457	\$351,944
Residual interests previously securitized	130,881	—
Write-downs of residual interests	(25,589)	(29,642)
Total gain on sale	602,749	322,302
Accretion income:		
Residual interests	43,887	17,995
Realized gains on residual write-ups	69,259	11,301
Total accretion income	113,146	29,296
Interest income	80,623	54,743
Loan servicing revenue	123,647	100,378
Other	1,709	2,178
Total revenues	921,874	508,897
Compensation and benefits	183,637	129,588
Variable servicing and processing	51,958	53,282
Occupancy and equipment	28,924	21,175
Interest expense	2,544	4,126
Bad debt expense	15,015	17,452
Other	71,956	43,671
Allocated corporate and shared costs	4,769	2,206
Total expenses	358,803	271,500
Pretax earnings	\$563,071	\$237,397

Nine months ended January 31, 2003 compared to January 31, 2002

Mortgage Operations' revenues increased \$413.0 million, or 81.2%, to \$921.9 million for the nine months ended January 31, 2003 compared to the prior year. Revenue increases are primarily due to the \$130.9 million gain on the sale of residual interests previously securitized and an increase in gain on sale of mortgage loans.

Gains on sale of mortgage loans and related assets for both wholesale and retail increased \$145.5 million to \$497.5 million for the nine months ended January 31, 2003. This increase over last year is a result of a significant increase in loan production volume. For the nine months ended January 31, 2003, the Company originated \$11.8 billion in mortgage loans compared to \$8.2 billion last year, an increase of 44.4%. The increase in loan production is primarily a result of an increase in the number of applications received, an increase in the closing ratio and an increase in the average loan size. Excluding the \$634.0 million of loans acquired and sold, the execution price increased slightly to 4.75% from 4.74% last year. During the period, the Company received 83% of its gain on sale in cash, compared to 80% in the prior year. See further discussion in the Financial Condition section.

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Write-downs of residual interests in securitizations of \$25.6 million were recognized during the current period, due to a decline in value of older residuals based on loan performance. Write-downs on residuals for the nine months ended January 31, 2002 totaled \$29.6 million.

Accretion of residual interests of \$43.9 million represents an increase of \$25.9 million over the prior year accretion of \$18.0 million, primarily due to added residual interests from loan sale activity. Accretion of realized gains on residual write-ups of \$69.3 million were realized during the nine months ended January 31, 2003, compared to \$11.3 million in the prior year. This improvement is the result of increases in the related asset values due to declining interest rates and added residuals from loan sale activity. As a result of the sale of residual interests previously securitized totaling \$206.6 million during the current quarter, future accretion income that would have otherwise been realized from these assets will be commensurately lower.

During fiscal year 2003, the Company's residual interests continued to perform better than expected primarily due to lower interest rates. As a result, the Company recorded pretax mark-to-market write-up adjustments, which increased the fair value of its residual interests \$162.5 million during the year. These write-ups were partially offset by write-downs of \$12.6 million and were recorded, net of deferred taxes of \$57.3 million, in other comprehensive income and will be accreted into income throughout the remaining life of those residual interests. Future changes in interest rates or other assumptions could cause additional adjustments to the fair value of the residual interests and would cause changes to the accretion of these residual interests in future periods. Write-ups of residual interests of \$45.5 million were recorded during the nine months ended January 31, 2002.

Interest income increased \$25.9 million to \$80.6 million due to a higher average receivable balance from the Trusts and an increase in the interest rate margin to 5.99% during the nine months ended January 31, 2003, compared to 5.36% last year.

Loan servicing revenues increased \$23.3 million, or 23.2%, to \$123.6 million this year. The increase reflects a higher loan servicing portfolio. The average servicing portfolio for the nine-month period ended January 31, 2003 increased \$6.8 billion, or 34.9%, to \$26.3 billion.

Total expenses increased \$87.3 million, or 32.2%, primarily due to a \$54.0 million increase in compensation and benefit costs due to an increase in the number of employees needed to support increasing loan production volumes. Other expenses increased by \$28.3 million to \$72.0 million for the quarter ended January 31, 2003, primarily due to a \$4.1 million increase in depreciation, a \$7.8 million increase in marketing expenses, and increases in other administrative expenses including legal and consulting costs.

Pretax earnings increased \$325.7 million to \$563.1 million for the nine months ended January 31, 2003.

Investment Services

This segment is primarily engaged in offering investment advice and services through H&R Block Financial Advisors, Inc. (HRBFA), a full-service securities broker-dealer. HRBFA is a member of the New York Stock Exchange and other principal exchanges. The Investment

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Services segment offers investment planning, brokerage services, investment advice, and related financial services and securities products through approximately 1,700 financial advisors at approximately 715 branch offices located throughout the United States. Some offices are co-located with tax and mortgage offices to offer customers one location for their tax and financial services needs.

Products and services offered to Investment Services' customers include: stock trading, annuities, fixed income products, mutual funds, margin accounts, money market funds with sweep provisions for settlement of customer transactions, checking privileges, account access/review via the internet, online trading, fee-based accounts, individual retirement accounts, dividend reinvestment, option accounts and stock research and recommendations. In addition, clients of the Company's U.S. Tax Operations segment are given the opportunity to open an individual retirement account (Express IRA) through HRBFA as a part of the income tax return preparation process. The Express IRA is invested in an FDIC insured money market account through Reserve Management Corporation at a federally insured depository institution paying competitive money market interest rates.

*Investment Services — Three-Month Operating Statistics
(actual amounts, except as indicated)*

	Three months ended		
	January 31, 2003	January 31, 2002	October 31, 2002
Customer trades	306,119	402,016	292,880
Customer daily average trades	4,638	6,241	4,576
Average revenue per trade	\$ 115.57	\$ 100.53	\$ 119.21
Number of active accounts	670,000	603,000	710,000
Average trades per active account per quarter	0.46	0.67	0.41
Average trades per active account per year (annualized)	1.83	2.67	1.65
Ending balance of assets under administration (billions)	\$ 21.0	\$ 27.2	\$ 21.4
Average assets per active account	\$ 31,397	\$ 45,191	\$ 30,102
Ending margin balances (000s)	\$535,000	\$878,000	\$503,000
Ending customer payables balances (000s)	\$802,000	\$865,000	\$821,000

Investment Services — Three-Month Operating Results

	Three months ended		
	January 31, 2003	January 31, 2002	October 31, 2002
Margin interest revenue	\$ 8,887	\$ 13,740	\$ 9,758
Less: interest expense	945	2,095	1,586
Net interest income	7,942	11,645	8,172
Commission revenue	21,743	26,859	20,187
Fee revenue	8,097	6,451	8,039
Firm trading revenue	10,557	10,191	11,509
Other	(1,237)	3,844	534
Total revenues (1)	47,102	58,990	48,441
Commissions	10,521	11,392	9,740
Other variable expenses	1,332	2,238	831
Total variable expenses	11,853	13,630	10,571
Operating margin	35,249	45,360	37,870
Compensation and benefits	22,110	22,603	23,360
Occupancy and equipment	8,384	5,903	6,640
Depreciation and amortization	6,680	5,314	5,621
Amortization of acquisition intangibles	7,325	7,362	7,325
Impairment of goodwill	—	—	6,000
Other	17,906	10,947	13,929
Allocated corporate and shared costs	4,599	5,531	2,931
Total fixed expenses	67,004	57,660	65,806
Pretax loss	\$ (31,755)	\$ (12,300)	\$ (27,936)

(1) Total revenues, less interest expense.

Three months ended January 31, 2003 compared to January 31, 2002

Investment Services' revenues, net of interest expense, for the three months ended January 31, 2003 declined \$11.9 million, or 20.2%, to \$47.1 million compared to the prior year. The decrease is primarily due to lower net interest income and commission revenue.

Margin interest revenue declined 35.3% to \$8.9 million from the prior year, which is primarily a result of a 39.0% decline in margin balances and, to a lesser extent, lower interest rates. Margin balances have declined from an average of \$863.0 million for the three months ended January 31, 2002 to \$515.0 million in the current period, due to weak investor confidence and declining stock market values. Accordingly, interest expense for the third quarter of fiscal year 2003 declined 54.9% to \$0.9 million compared to \$2.1 million in the third quarter of fiscal year 2002.

The Company measures the profitability of margin lending activities through the net interest margin. Net interest margin is defined as interest earned on the average margin loan balance, less the cost of funding these loans. Net interest margin declined from 0.58% for the quarter ended

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January 31, 2002 to .41% for the quarter ended January 31, 2003, in conjunction with the decrease in market rates.

Commission revenue declined \$5.1 million, or 19.0%, to \$21.7 million. Total customer trades for the current quarter were 306 thousand, a decline of 23.9% from 402 thousand trades in the prior year. Customer trading has continued to decline as a result of weak investor confidence and declining stock market values.

Fee revenue increased \$1.6 million, or 25.5%, due to the implementation of a new fee structure in November of last year, and the addition of wealth management products. Wealth management products accounted for \$1.2 million of the total increase in fee revenues.

Firm trading revenue, including equities, fixed income trading, underwriting, and unit investment trusts, increased 3.6% to \$10.6 million. Underwriting revenues increased \$2.7 million, or 84.8%, to \$5.8 million from \$3.1 million in the third quarter of fiscal year 2002, primarily due to increased demand for Trust Preferred Debt Securities and additional underwriting fees in the current year quarter. Partially offsetting these increases, revenues from fixed income trading decreased 15.4% to \$4.4 million from \$5.2 million. Equity trading declined \$1.3 million as a result of the principal equity trading operations closing in April 2002.

Other revenues declined from the prior year due to losses incurred on the disposition of certain assets.

Total expenses increased \$7.6 million, or 10.6%, to \$78.9 million primarily as a result of increases in operating expenses resulting from various new initiatives to expand products and the business, including the installation of a new back office brokerage operating system and relocation to new offices. These increased expenses were partially offset by a decrease in commissions expense due to the decline in customer trading and cost containment measures.

The pretax loss for Investment Services for the third quarter of fiscal year 2003 was \$31.8 million compared to the prior year loss of \$12.3 million.

As a result of meeting certain three-year production goals established in connection with the acquisition of OLDE Discount Corporation, certain long-term advisors were eligible to receive a one-time retention payment. The retention period was through December 31, 2002, and retention payments under this plan of approximately \$17.0 million were accrued in prior periods and made in February 2003.

Three months ended January 31, 2003 compared to October 31, 2002

Investment Services' revenues, net of interest expense, for the three months ended January 31, 2003 declined \$1.3 million, or 2.8%, to \$47.1 million compared to the preceding quarter.

Margin interest revenue declined \$0.9 million, or 8.9%, to \$8.9 million for the quarter ended January 31, 2003. Decreasing margin interest revenue is due primarily to lower customer margin balances, which have declined 8.0% from an average of \$560.0 million for the second quarter of 2003 to an average of \$515.0 million for the third quarter. Corresponding decreases in margin

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interest expense resulted in net interest in the third quarter that was comparable with net interest in the preceding quarter.

Commission revenue increased \$1.6 million, or 7.7%, to \$21.7 million, as a result of a 4.5% increase in total customer trades to 306 thousand for the third quarter, compared to 293 thousand in the second quarter.

Firm trading revenue, including equities, fixed income trading, underwriting, and unit investment trusts, decreased 8.3% from the second quarter of fiscal year 2003 to \$10.6 million in the third quarter. This decrease was primarily due to a decline in underwriting revenues, partially offset by higher municipal bond trading revenue.

Total expenses increased \$2.5 million from the preceding quarter. Increased expenses were primarily due to costs relating to the installation of a new back office brokerage operating system and relocation costs, partially offset by the \$6.0 million goodwill impairment charge recorded during the second quarter.

The third-quarter pretax loss for the Investment Services segment increased 13.7% to \$31.8 million from \$27.9 million in the second quarter of fiscal year 2003.

Investment Services — Nine-Month Operating Statistics
(actual amounts, except as indicated)

	Nine months ended	
	January 31, 2003	January 31, 2002
Customer trades	973,249	1,168,453
Customer daily average trades	5,043	6,215
Average revenue per trade	\$ 117.95	\$ 105.25
Number of active accounts	670,000	603,000
Ending balance of assets under administration (billions)	\$ 21.0	\$ 27.2
Average assets per active account	\$ 31,397	\$ 45,191
Ending margin balances (000s)	\$535,000	\$ 878,000
Ending customer payables balances (000s)	\$802,000	\$ 865,000

Investment Services — Nine-Month Operating Results

	Nine months ended	
	January 31, 2003	January 31, 2002
Margin interest revenue	\$ 29,841	\$ 55,564
Less: interest expense	4,222	13,007
Net interest income	25,619	42,557
Commission revenue	67,284	79,373
Fee revenue	24,745	17,762
Firm trading revenue	35,018	34,349
Other	(151)	7,789
Total revenues (1)	152,515	181,830
Commissions	31,641	36,162
Other variable expenses	2,711	7,297
Total variable expenses	34,352	43,459
Operating margin	118,163	138,371
Compensation and benefits	69,321	63,224
Occupancy and equipment	21,646	21,004
Depreciation and amortization	17,677	15,099
Amortization of acquisition intangibles	21,975	22,124
Impairment of goodwill	24,000	—
Other	45,534	35,125
Allocated corporate and shared costs	10,498	9,328
Total fixed expenses	210,651	165,904
Pretax loss	\$ (92,488)	\$ (27,533)

(1) Total revenues, less interest expense.

Nine months ended January 31, 2003 compared to January 31, 2002

Investment Services' revenues, net of interest expense, declined \$29.3 million, or 16.1%, to \$152.5 million for the nine months ended January 31, 2003 compared to the prior year. Revenues have declined due to difficult market conditions resulting in lower net interest income and commission revenue.

Margin interest revenue declined 46.3%, down to \$29.8 million from the prior year as a result of declining margin balances and, to a lesser extent, lower interest rates. Margin balances declined from an average of \$1.1 billion for the nine months ended January 31, 2002, to \$598.7 million in the current period. Total interest expense decreased 67.5% to \$4.2 million compared to the nine months ended January 31, 2002. Net interest margin declined from 1.06% for the nine months ended January 31, 2002 to .49% for the current year, in conjunction with the decrease in market rates.

Commission revenue declined \$12.1 million, or 15.2%, to \$67.3 million. Commission revenue decreased as a result of a 16.7% decline in total customer trades from 1.2 million trades in the

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previous year to 973 thousand trades for the nine months ended January 31, 2003. This decline was partially offset by an increase in average revenue per trade.

Fee revenue increased \$7.0 million, or 39.3%, due to the implementation of a new fee structure in November of last year, and the addition of wealth management products.

During the first quarter of fiscal year 2003, the Company engaged an independent valuation firm to evaluate the fair value of goodwill related to the Investment Services segment as of July 31, 2002. An estimated impairment charge of \$18.0 million was recorded during the first quarter of fiscal year 2003, and an additional impairment charge of \$6.0 million was recorded during the second quarter. No goodwill impairment charges were identified during the nine months ended January 31, 2002.

Total expenses increased \$35.6 million, or 17.0%, to \$245.0 million, due primarily to the \$24.0 million goodwill impairment charge recorded in the current year. The remaining increase in operating expenses was due to various new initiatives to expand products and the business, including the installation of a new back office brokerage operating system. These increased expenses were partially offset by a decrease in commissions expense due to the decline in customer trading.

Key to the future success of the Investment Services segment is retention of its financial advisors and recruitment of new advisors. One of the Company's key initiatives this year is to build revenues through the addition of experienced financial advisors to the organization. During the third quarter, 122 experienced advisors were added, bringing the total hired this fiscal year to 247, versus the fiscal year goal of 250. While revenues continue to build as a result of this initiative, revenues generated by newly recruited advisors have grown slower than anticipated given the current market environment.

The pretax loss for Investment Services for the nine months ended January 31, 2003 was \$92.5 million compared to the prior period pretax loss of \$27.5 million. Operating results for Investment Services have declined primarily due to weak trading activity, a decline in margin lending and goodwill impairment charges. Revenues are closely linked with the overall performance of market indices and operating results are not likely to improve substantially until investor confidence strengthens and market conditions improve.

Business Services

This segment is primarily engaged in providing accounting, tax, consulting, payroll, employee benefits and capital markets services to business clients and tax and financial planning, wealth management and insurance services to individuals.

To expand its service offerings, the Company acquired a controlling interest in MyBenefitSource, Inc. (MBS), an integrated payroll and benefits processing company, and 100% of Equico Resources, LLC (Equico), a valuation, merger and acquisition-consulting firm, in December 2001. These acquisitions were accounted for as purchases, and the results of operations for these businesses have been consolidated in segment financial results since the date of acquisition. Segment revenues have increased in fiscal year 2003 compared to fiscal year 2002 as a result of

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these acquisitions. In addition, both MBS and Equico are start-up businesses and are currently generating operating losses that have adversely impacted fiscal year 2003 segment results.

Business Services — Three-Month Results

	Three months ended		
	January 31, 2003	January 31, 2002	October 31, 2002
Accounting, consulting and tax	\$ 88,817	\$ 92,651	\$ 85,000
Product sales	4,871	4,742	5,774
Management fee revenue	3,150	3,150	3,150
Other	3,903	6,518	3,959
Total revenues	100,741	107,061	97,883
Compensation and benefits	65,060	64,311	65,654
Occupancy and equipment	7,110	4,426	6,789
Depreciation and amortization	2,020	1,626	1,767
Marketing and advertising	3,599	1,249	1,775
Bad debt expense	3,009	3,457	2,439
Amortization of acquisition intangibles	3,754	3,569	3,690
Other	19,778	26,032	19,070
Allocated corporate and shared costs	608	611	484
Total expenses	104,938	105,281	101,668
Pretax earnings (loss)	\$ (4,197)	\$ 1,780	\$ (3,785)

Three months ended January 31, 2003 compared to January 31, 2002

Business Services' revenues of \$100.7 million for the three months ended January 31, 2003 declined \$6.3 million, or 5.9%, from the prior year. This decrease was primarily due to a decline of \$14.5 million in tax consulting revenues. The current economic recession and a continuing cautious business environment have contributed to weakness in the segment's business consulting services. This decline was somewhat offset by the acquisition of MBS and Equico, which increased revenue for the current quarter \$6.7 million. Revenues also increased \$2.1 million over the year ago quarter as a result of growth in outsourcing services.

Total expenses of \$104.9 million for the three months ended January 31, 2003 were comparable to the prior year. Occupancy and equipment costs increased \$2.7 million and marketing and advertising costs increased \$2.4 million primarily as a result of acquired businesses. These increases were offset by a decline in out-of-pocket expenses billed to clients and other cost reductions.

The pretax loss for the three months ended January 31, 2003 was \$4.2 million compared to pretax earnings of \$1.8 million in 2002.

Due to the seasonal nature of this segment's business, operating results for the three months ended January 31, 2003 are not comparable to the three months ended October 31, 2002.

Business Services — Nine-Month Results

	Nine months ended	
	January 31, 2003	January 31, 2002
Accounting, consulting and tax	\$256,733	\$237,656
Product sales	16,218	15,057
Management fee revenue	9,450	8,550
Other	11,537	18,603
Total revenues	293,938	279,866
Compensation and benefits	199,788	184,970
Occupancy and equipment	18,401	14,336
Depreciation and amortization	5,528	5,249
Marketing and advertising	6,864	3,919
Bad debt expense	6,337	8,085
Amortization of acquisition intangibles	11,438	10,020
Other	56,192	49,776
Allocated corporate and shared costs	1,645	1,348
Total expenses	306,193	277,703
Pretax earnings (loss)	\$ (12,255)	\$ 2,163

Nine months ended January 31, 2003 compared to January 31, 2002

Business Services' revenues of \$293.9 million for the nine months ended January 31, 2003 increased \$14.1 million, or 5.0%, from the prior year. As a result of the acquisitions of MBS and Equico in December 2001, revenues for the nine-month period ended January 31, 2003 increased \$28.9 million over the comparable period in 2002. These increases were partially offset by a \$13.6 million decline in tax consulting revenues and a \$5.2 million decline in insurance product revenues.

Total expenses increased \$28.5 million to \$306.2 million for the nine months ended January 31, 2003 primarily due to operating expenses of acquired businesses.

The pretax loss for the nine months ended January 31, 2003 was \$12.3 million, a decline of \$14.5 million compared to prior year earnings of \$2.2 million. The pretax loss in 2003 was primarily attributable to losses for MBS and Equico which, in the aggregate, were \$14.6 million greater than operating losses in the prior year.

Corporate Operations

This segment consists primarily of corporate support departments, which provide services to the Company's operating segments. These support departments consist of marketing, information technology, facilities, human resources, supply, executive, legal, finance, government relations and corporate communications. These support department costs are largely allocated to the Company's operating segments. The Company's captive insurance and franchise financing subsidiaries are also included within this segment.

[Table of Contents](#)*Corporate Operations &
Interest Expense on Acquisition Debt — Three-Month Results*

	Three months ended		
	January 31, 2003	January 31, 2002	October 31, 2002
Operating revenues	\$ 1,846	\$ 6,950	\$ 1,553
Eliminations	(1,551)	(1,166)	(1,410)
Total revenues	295	5,784	143
Corporate expenses:			
Compensation and benefits	2,631	(63)	4,476
Interest expense (1)	4,283	6,656	1,299
Marketing and advertising	1,865	10,319	83
Other	6,710	1,072	5,353
	15,489	17,984	11,211
Support departments:			
Information technology	24,987	23,418	22,348
Marketing	39,488	35,442	6,069
Finance	7,530	4,908	7,293
Other	24,741	20,034	13,483
	96,746	83,802	49,193
Allocation of shared services	(98,163)	(77,607)	(46,436)
Investment income, net	(191)	467	533
Pretax loss	\$ (13,968)	\$ (17,928)	\$ (13,292)
Interest expense on acquisition debt	\$ 18,014	\$ 19,243	\$ 18,203

(1) Represents net interest expense charged to financial related businesses and corporate operations for cash borrowed to fund operating activities.

Three months ended January 31, 2003 compared to January 31, 2002

Revenues declined \$5.5 million as a result of \$3.4 million in additional allocations to other segments of revenues from supply sales to franchises and a \$1.6 million decrease in operating investment income.

Corporate expenses declined \$2.5 million, or 13.9%, primarily due to lower interest and marketing expenses. Interest expense declined as a result of lower commercial paper borrowings in association with the RAL waiver agreement, while marketing expenses declined as a result of costs which are now charged directly to other segments. Other expenses increased as a result of additional consulting fees of \$1.9 million, coupled with additional increases in audit and legal fees.

Marketing department expenses increased \$4.0 million, or 11.4%, primarily due to acceleration of certain tax season advertisements during the current period, which in the prior fiscal year occurred in the fourth quarter.

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Finance department expenses increased \$2.6 million, or 53.4%, primarily as a result of increased insurance costs and consulting fees over the prior year period.

The pretax loss was \$14.0 million, compared with last year's third quarter loss of \$17.9 million.

The decrease in interest expense on acquisition debt is attributable to lower financing costs and a \$39.8 million payment on acquisition debt in August 2002.

*Corporate Operations &
Interest Expense on Acquisition Debt — Nine-Month Results*

	Nine months ended	
	January 31, 2003	January 31, 2002
Operating revenues	\$ 4,137	\$ 11,430
Eliminations	(4,185)	(3,986)
Total revenues	(48)	7,444
Corporate expenses:		
Compensation and benefits	11,269	10,147
Interest expense (1)	2,728	7,951
Marketing and advertising	2,095	12,330
Other	19,074	9,683
	35,166	40,111
Support departments:		
Information technology	66,266	58,393
Marketing	50,196	43,347
Finance	20,935	12,186
Other	49,054	39,660
	186,451	153,586
Allocation of shared services	(186,312)	(154,507)
Investment income, net	1,426	2,678
Pretax loss	\$ (33,927)	\$ (29,068)
Interest expense on acquisition debt	\$ 54,990	\$ 60,001

(1) Represents net interest expense charged to financial related businesses and corporate operations for cash borrowed to fund operating activities.

Nine months ended January 31, 2003 compared to January 31, 2002

Revenues of a negative \$48 thousand were \$7.5 million lower than last year due primarily to \$3.0 million in reduced interest income on operating investments, \$2.1 million in additional revenues from supply sales to franchises allocated to other segments and a \$1.7 million write-down in investments at the Company's captive insurance subsidiary.

Corporate expenses declined \$4.9 million, or 12.3%, over the prior year, primarily due to lower marketing expenses. Marketing expenses decreased as a result of costs which are now charged directly to other segments.

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Information technology expenses increased \$7.9 million, or 13.5%, primarily due to an increase of 16.3% in the number of employees over the nine months ended January 31, 2002. Equipment expenses also increased 12.2% due to the lease of additional computer hardware during the year.

Marketing expenses increased \$6.8 million, or 15.8%, primarily due to acceleration of certain tax season advertisements during the current period, which in the prior fiscal year occurred in the fourth quarter.

Finance department expenses increased \$8.7 million, or 71.8%, primarily as a result of increased insurance costs. In addition, consulting fees also increased over the prior year period.

The pretax loss was \$33.9 million, compared with last year's loss of \$29.1 million.

The decrease in interest expense on acquisition debt is attributable to lower financing costs and a \$39.8 million payment on acquisition debt in August 2002.

FINANCIAL CONDITION

These comments should be read in conjunction with the Consolidated Balance Sheets and Consolidated Statements of Cash Flows found on pages 1 and 3, respectively.

The Company's liquidity needs are met primarily through a combination of operating cash flows, commercial paper (CP) issuance, HRBFA client account assets and stock loans and whole loan sales.

OPERATING CASH FLOWS

Operating cash flows totaled negative \$366.7 million and negative \$920.8 million for the nine months ended January 31, 2003 and 2002, respectively. While annual operating cash flows are positive, the seasonal nature of the U.S. Tax Operations segment typically results in negative operating cash flow through the first three quarters of the fiscal year followed by large positive operating cash flow in the fourth quarter.

Free cash flow is a non-GAAP liquidity measure, which is defined as cash generated from operating activities, reduced by capital expenditures, contingent payments on prior acquisitions, debt payments, tax benefits on stock option exercises and other investing activities. Free cash flow, as defined, was negative \$314.8 million and negative \$1.1 billion for the nine months ended January 31, 2003 and 2002, respectively, and \$604.1 million for the year ended April 30, 2002. This calculation of free cash flow may not be comparable to that of other companies.

COMMERCIAL PAPER ISSUANCE

Commercial paper is issued through Block Financial Corporation (BFC) and H&R Block Canada, Inc., wholly-owned subsidiaries of the Company. The following chart provides the debt ratings for BFC as of January 31, 2003:

	<u>Short-term</u>	<u>Long-term</u>	<u>Outlook</u>
Fitch	F1	A	Negative
Moody's	P2	A3	Stable
S&P	A2	BBB+	Stable

The following chart provides the debt ratings for H&R Block Canada, Inc. as of January 31, 2003:

	<u>Short-term</u>	<u>Corporate</u>	<u>Trend</u>
DBRS	R-1 (low)	A	Stable
Moody's	P2		

The Company incurred short-term borrowings throughout the third quarter primarily to fund receivables associated with its Business Services segment, mortgage loans held for sale, seasonal working capital needs, dividend payments, and purchases of treasury stock. Short-term borrowings were \$586.8 million at January 31, 2003, compared with \$1.6 billion at January 31, 2002. The reduction was primarily a result of the RAL waiver agreement, whereby the Company waived its right to purchase participation interests in RALs during the 2003 tax season.

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The Company's commercial paper issuances are supported by unsecured committed lines of credit (CLOCs). The United States issuances are supported by a \$2.0 billion CLOC from a consortium of twenty-two banks. The \$2.0 billion CLOC is subject to annual renewal in October of 2003, and has a one-year term-out provision with a maturity date of October 22, 2004. This line is subject to various affirmative and negative covenants, including a minimum net worth covenant, and has not been drawn against. The Canadian issuances are supported by a credit facility provided by one bank in an amount not to exceed \$125 million (Canadian), which also serves as a working capital line for Canadian operations. The Canadian CLOC is subject to annual renewal in December of 2003.

Risks to the stability of the Company's commercial paper market participation would be a short-term rating downgrade, adverse changes in the Company's financial performance, non-renewal of the CLOCs, adverse publicity and operational risk within the commercial paper market such as the events on September 11, 2001. Management believes if any of these events were to occur, the CLOCs, to the extent available, could be used for an orderly exit from the commercial paper market, though at a higher cost to the Company. Additionally, the Company could turn to other sources of liquidity, including cash, other borrowings, debt issuance and asset sales or securitizations.

OTHER OBLIGATIONS AND COMMITMENTS

In April 2000, the Company issued \$500 million of 8 1/2% Senior Notes, due 2007. The Senior Notes are not redeemable prior to maturity. The net proceeds of this transaction were used to repay a portion of the initial short-term borrowings for the OLDE Financial Corporation acquisition.

In October 1997, the Company issued \$250 million of 6 3/4% Senior Notes, due 2004. The Senior Notes are not redeemable prior to maturity. The net proceeds of this transaction were used to repay short-term borrowings that initially funded the acquisition of Option One Mortgage Corporation (Option One).

Long-term debt at January 31, 2003 was comprised of the \$750 million of Senior Notes described above, future payments related to the acquisitions of RSM McGladrey and other accounting firms of \$120.0 million, and capital lease obligations and mortgage notes of \$14.7 million.

As of January 31, 2003, the Company had \$250 million remaining under its shelf registration of debt securities for additional debt issuance.

In connection with the Company's acquisition of the non-attest assets of McGladrey & Pullen, LLP (McGladrey) in August 1999, the Company assumed certain pension liabilities related to McGladrey's retired partners. The Company makes payments in varying amounts on a monthly basis. Included in other noncurrent liabilities at January 31, 2003 and April 30, 2002 is \$25.3 million and \$25.7 million, respectively, related to this liability.

In connection with the Company's Business Services acquisitions, the purchase agreements provide for possible future contingent consideration, which is based on achieving certain revenue, profitability and working capital requirements over the next six years. Contingent

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payments of \$20.3 million and \$15.4 million were made during the nine months ended January 31, 2003 and 2002, respectively.

Business Services has commitments to fund certain attest entities, which are not consolidated, related to accounting firms it has acquired. Commitments also exist to loan up to \$40 million to McGladrey & Pullen, LLP on a revolving basis through July 31, 2004, subject to certain termination clauses. This revolving facility bears interest at the prime rate plus four and one-half percent on the outstanding amount and a commitment fee of one-half percent per annum on the unused portion of the commitment.

In 2000, HRB Royalty, Inc. (HRB Royalty) placed most of its major franchisees on notice that it would not be renewing their respective franchise agreements as of the next renewal date. The renewal dates vary among the major franchisees. Pursuant to the terms of the applicable franchise agreements, HRB Royalty must pay the major franchisee a "fair and equitable price" for the franchise business and such price shall be no less than eighty percent of the franchisee's revenues for the most recent 12 months ended April 30, plus the value of equipment and supplies, and certain off-season expenses. The Company expects to acquire the franchise businesses over the next several fiscal years, however there is no certainty of the timing or cost of acquisition as to any franchise business due, in part, to related litigation.

During the third quarter, the Office of Thrift Supervision (OTS), an office of the Department of Treasury, announced a July 1, 2003 effective date for a final rule that will remove prepayment and late fee rules from the list of OTS regulations applicable to state housing creditors under the Alternative Mortgage Transaction Parity Act (Parity Act). The Parity Act, adopted in 1982, grants certain state-chartered housing creditors such as Option One and H&R Block Mortgage, parity with federally chartered lenders when making loans with payment features that vary from conventional fixed-rate, fixed-term mortgage loans. Once effective, Option One and H&R Block Mortgage must comply with applicable state and local laws covering prepayment fees. The rule change regarding late fees will not affect Option One or H&R Block Mortgage as they already comply with state and local laws covering such fees. The Company is evaluating the potential impact of the rule change on its operations and financial results and developing strategies to mitigate any adverse effect. The rule change is not expected to have a material adverse effect on the Company's consolidated results of operations or financial position.

The United States, various state, local, provincial and foreign governments and some self-regulatory organizations have enacted statutes and ordinances, and/or adopted rules and regulations, regulating aspects of the businesses in which the Company's subsidiaries are involved, including, but not limited to, commercial income tax return preparers, income tax courses, the electronic filing of income tax returns, the facilitation of refund anticipation loans, loan originations and assistance in loan originations, mortgage lending, privacy, consumer protection, franchising, sales methods, brokers, broker-dealers and various aspects of securities transactions, financial planners, investment advisors, accountants and the accounting practice. The Company's subsidiaries seek to determine the applicability of such statutes, ordinances, rules and regulations (collectively, "Laws") and comply with those Laws that apply to their activities. From time to time in the ordinary course of business, the Company and its subsidiaries receive inquiries from governmental and self-regulatory agencies regarding the applicability of Laws to the products and services offered by the Company's subsidiaries. In response to past inquiries, the Company's subsidiaries have agreed to comply with such Laws, convinced the authorities that such Laws were not applicable or that compliance already exists, and/or modified such subsidiaries' activities in the applicable jurisdiction to avoid the application of all or certain parts of such Laws. The Company's management believes that the past resolution of such inquiries and its ongoing compliance with Laws have not had a material adverse effect on the consolidated results of operations or financial condition of the Company and its subsidiaries. The Company cannot predict what effect future Laws, changes in interpretations of existing Laws, or the results of future regulator inquiries with respect to the applicability of Laws may have on the Company's subsidiaries, the consolidated results of operations or the financial condition of the Company and its subsidiaries.

LIQUIDITY BY STRATEGIC BUSINESS UNIT

U.S. Tax Operations:

U.S. Tax Operations has historically been the largest provider of annual operating cash flows to the Company.

International Tax Operations:

International Tax Operations are generally self-funded, with the exception of the United Kingdom. Cash balances are held in Canada and Australia in local currencies. At January 31, 2003, there was no Canadian commercial paper outstanding.

Mortgage Operations:

Through Option One Mortgage Corporation (OOMC) and H&R Block Mortgage Corporation (HRBMC), this segment is primarily engaged in the origination and sale of mortgage loans and related assets and provides servicing for non-prime loans. In order to reduce the Company's capital investment in its non-prime mortgage operations, the Company entered into third-party off-balance sheet arrangements beginning in April 2000, renewable annually. These arrangements are primarily used to purchase mortgage loans, but a portion may also be used to finance servicing advances and residual interests. The arrangements have freed up cash and short-term borrowing capacity, improved liquidity and flexibility, and reduced balance sheet risk, while providing stability and access to liquidity in the secondary market. The prime loans originated through HRBMC are sold through whole loan sales.

The Company originates mortgage loans and sells most loans the same day in a whole loan sale to the Trusts. The sale is recorded in accordance with Statement of Accounting Standards No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." The Trusts purchase the loans from the Company utilizing three warehouse facilities totaling \$4.0 billion. These facilities are subject to various OOMC performance triggers, limits and financial covenants, including tangible net worth and leverage ratios. As a result of the whole loan sale to the Trusts, the Company records a receivable from the Trusts for the present value of the portion of the net spread (the difference between the rate on the loans and the financing cost of the Trusts) plus prepayment penalty income. This receivable is included in prepaid and other current assets on the consolidated balance sheets.

The Trusts then have two options to ultimately dispose of the mortgage loans, either through a securitization or a whole loan sale. The ultimate disposition of the loans by the Trusts determines the treatment of the receivable from the Trusts and the timing of the receipt of cash related to this receivable.

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If the Trusts choose to sell the mortgage loans in a whole loan sale, cash received by the Company for its receivable is subject to the net execution price obtained in the sale of the mortgage loans.

If the Trusts choose to securitize the mortgage loans, the Company then pledges its receivable and the Trusts pledge the related mortgage loans to a securitization trust to reconstitute the loans. The securitization trust then securitizes the reconstituted mortgage loans. At this point, the Company's receivable is restructured and recharacterized as a residual interest from the securitized mortgage loans. These residual interests are classified as trading and are included in marketable securities-trading on the Consolidated Balance Sheets.

To enable the Company to accelerate a significant portion of the cash flow from residual interests rather than receiving those cash flows over the life of the securitization, the Company securitizes its residual interests in a NIM transaction. From the NIM transaction, the Company receives cash and retains a much smaller residual interest. Generally, these residuals do not begin to receive cash collections for two to three years. These residual interests are classified as available-for-sale.

The Company began receiving cash collections from its residual interests in fiscal year 2002, which reduced the outstanding balance of the residuals. Cash received on these residual interests was \$117.5 million for the nine months ended January 31, 2003, compared with \$33.0 million for the comparable period in fiscal year 2002.

During the third quarter, the Company completed the sale of \$206.6 million of residual interests from prior securitizations. The transaction, which closed on November 15, 2002, netted the Company \$142.5 million in cash. The gain on this transaction is reflected as a separate line item in the Consolidated Statements of Operations, and in the Mortgage Operations segment, where applicable.

For the nine months ended January 31, 2003, the final disposition of loans by the Trusts was 65.2% securitizations and 34.8% whole loan sales. For the nine months ended January 31, 2002, the final disposition of loans by the Trusts was 84.4% securitizations and 15.6% whole loan sales.

The majority of revenues from Mortgage Operations are generated by sales of mortgage assets. Gains on sales of mortgage assets consist of the following:

	Nine months ended	
	January 31, 2003	January 31, 2002
Gain on whole loans sold by the Trusts	\$ 267,499	\$ 38,868
Gain on loans securitized by the Trusts	224,085	288,148
Gain on sale of residual interests previously securitized	130,881	—
Gain on loans still held by the Trusts	73,494	57,385
Gain on mortgage servicing rights	50,691	37,564
Net change in mark-to-market on pipeline loans	1,906	542
Adjustments to fair value of residual interests	(25,589)	(29,642)
Origination expenses	(120,218)	(70,563)
	<u>602,749</u>	<u>322,302</u>
Percent of gain received as cash	83%	80%

The Company has commitments to fund mortgage loans in its pipeline of \$2.3 billion at January 31, 2003, subject to contract verification. External market forces impact the probability of loan commitments being closed, and therefore, total commitments outstanding do not necessarily represent future cash requirements. If the loan commitments are exercised, they will be funded in the manner described above.

The mortgage segment regularly sells loans as a source of liquidity for its prime and non-prime mortgages. Whole loan sales through January 31, 2003 were \$12.4 billion compared with \$8.2 billion for the same period in fiscal year 2002. Additionally, BFC provides the mortgage segment a \$150 million line of credit for working capital needs.

Management believes the sources of liquidity available to the Mortgage Operations segment are predictable and sufficient for its needs. Risks to the stability of these sources include external events impacting the asset-backed securities market. The liquidity available from the NIM transactions is also subject to external events impacting this market. These external events include, but are not limited to, adverse changes in the perception of the non-prime industry or in the regulation of non-prime lending and, to a lesser degree, reduction in the availability of third parties that provide credit enhancement. Performance of the securitizations will also impact the segment's future participation in these markets. The three warehouse facilities used by the Trusts are subject to annual renewal, each at a different time during the year, in January, April and July and any of the above events could lead to difficulty in renewing the lines. These risks are mitigated by the availability of whole loan sales and financing provided by the Company.

The Financial Accounting Standards Board (FASB) has proposed changes to the accounting for residual interests in securitizations in an interpretation of Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133). The interpretation, if finalized with the proposed provisions, may impact the Company's ability to record NIM transactions utilizing its current structure and maintain its current accounting treatment. The Company has not yet determined the impact, if any, of the proposed interpretation on its financial statements.

Investment Services:

Liquidity needs relating to client trading and margin-lending activities are met primarily through cash balances in client brokerage accounts and working capital. Management believes these sources of funds will continue to be the primary sources of liquidity for Investment Services. Stock loans have been used as a secondary source of funding in the past and could be in the future, if warranted.

Investment Services, through HRBFA, is subject to regulatory requirements that are intended to ensure the general financial soundness and liquidity of broker-dealers.

HRBFA is required to maintain minimum net capital as defined under Rule 15c3-1 of the Securities Exchange Act of 1934 and has elected to comply with the alternative capital requirement, which requires a broker-dealer to maintain net capital equal to the greater of \$1 million or 2% of the combined aggregate debit balances arising from customer transactions. The net capital rule also provides that equity capital may not be withdrawn or cash dividends paid if resulting net capital would be less than the greater of 5% of combined aggregate debit items or \$1 million. At January 31, 2003, HRBFA's net capital of \$106.1 million, which was 18.5% of aggregate debit items, exceeded its minimum required net capital of \$11.5 million by \$94.6 million.

To manage short-term liquidity, HRBFA maintains a \$300 million unsecured credit facility with BFC, its indirect corporate parent. As of January 31, 2003, HRBFA had a \$125 million letter of credit with a financial institution. As of January 31, 2003, no amounts were drawn on this letter of credit.

Securities borrowed and securities loaned transactions are generally reported as collateralized financings. These transactions require the Company to deposit cash and/or collateral with the lender. Securities loaned consist of securities owned by customers, which were purchased on margin. When loaning securities, the Company receives cash collateral approximately equal to the value of the securities loaned. The amount of cash collateral is adjusted, as required, for market fluctuations in the value of the securities loaned. Interest rates paid on the cash collateral fluctuate as short-term interest rates change.

To satisfy the margin deposit requirement of client option transactions with the Options Clearing Corporation (OCC), Investment Services pledges customers' margined securities. Pledged securities at January 31, 2003 totaled \$34.1 million, an excess of \$3.1 million over the margin requirement. In January 2002, Investment Services provided the OCC with letters of credit of \$45.0 million to satisfy the \$40.0 million margin requirement. The letters of credit were collateralized by customers' margined securities.

Management believes the funding sources for Investment Services are stable. Liquidity risk within this segment is primarily limited to maintaining sufficient capital levels to obtain securities lending liquidity to support margin borrowing by customers.

Business Services:

Business Services' funding requirements are largely related to "work in process" and accounts receivable. A line of credit is available from the Company sufficient to cover this segment's working capital needs.

CAPITAL RESOURCES

Cash used in operating activities totaled \$366.7 million for the nine months ended January 31, 2003, compared with \$920.8 million for the nine months ended January 31, 2002. Cash used in operations was primarily impacted by the increase in receivables of \$130.4 million for the nine months ended January 31, 2003 compared to \$916.0 million for the nine months ended January 31, 2002. The decline in the receivable balance is primarily due to the waiver of the Company's right to purchase participation rights in RALs, which reduced the receivable balance by \$737.7 million compared to January 31, 2002.

Cash expenditures during the nine months ended January 31, 2003 relating to investing and financing activities include the purchase of property and equipment (\$95.6 million), payment of dividends (\$93.6 million) and the acquisition of treasury shares (\$317.6 million).

Cash and cash equivalents, including restricted balances, totaled \$855.6 million at January 31, 2003. Investment Services held \$459.2 million of the \$855.6 million, of which \$392.9 million was segregated in a special reserve account for the exclusive benefit of customers pursuant to Rule 15c3-3 of the Securities Exchange Act of 1934 (restricted cash). Investment Services' restricted cash balance has risen 53.0% from \$256.8 million at April 30, 2002. Payables to customers have become larger than customer margin balances due to unstable equity markets. The remaining cash and cash equivalents held by Investment Services reflect excess cash remaining from the firm and clients after funding margin debits and security settlements. Restricted cash held by Mortgage Operations totaled \$12.8 million at January 31, 2003 as a result of cash held for outstanding commitments to fund mortgage loans. Restricted cash of \$13.0 million at January 31, 2003 held by Business Services is related to funds held to pay payroll taxes on behalf of its clients.

Working capital decreased to \$209.5 million at January 31, 2003 from \$365.4 million at April 30, 2002. The working capital ratio at January 31, 2003 is 1.10 to 1, compared to 1.19 to 1 at April 30, 2002. A large portion of tax return preparation occurs in the fourth quarter and has the effect of increasing certain assets and liabilities during the fourth quarter, including cash and cash equivalents, receivables, accrued salaries, wages and payroll taxes and accrued taxes on earnings.

In March 2000, the Company's Board of Directors approved an authorization to repurchase up to 12 million shares of its common stock. Repurchases under the March 2000 authorization were completed in September 2001. On September 12, 2001, the Company's Board of Directors authorized the repurchase of 15 million shares of common stock. During fiscal year 2002, the Company repurchased 12.2 million shares (split-adjusted) pursuant to these authorizations at an aggregate price of \$462.5 million or an average price of \$37.76 per share. In the nine months ended January 31, 2003, the Company purchased 6.6 million shares at an aggregate price of \$316.6 million, or an average price of \$47.94 per share. As of January 31, 2003, there were

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approximately 1.9 million shares remaining under the September 2001 authorization. The Company plans to continue to purchase its shares on the open market in accordance with this authorization, subject to various factors including the relative market price to an estimate of intrinsic value of the stock, the ability to maintain progress toward a financial and capital structure that will support a mid single A rating, the availability of excess cash, the ability to maintain liquidity and financial flexibility, securities laws restrictions and other investment opportunities available.

Definition of Non-GAAP Financial Measures

The Company provides readers financial measures generated using generally accepted accounting principles and will, from time to time, provide non-GAAP financial measures, as management believes such measures aid in the analysis and comparability of its financial results. A non-GAAP financial measure is a numerical measure of financial performance, financial position or cash flows that excludes or includes amounts included or excluded from the most directly comparable financial measures calculated and presented in accordance with generally accepted accounting principles.

Cash earnings are a non-GAAP financial measure, that the Company defines as net earnings excluding the after-tax effect of amortization expense of acquired intangible assets and, when applicable, goodwill impairment. The Company utilizes cash earnings to evaluate its resource generation capacity in order to make capital allocation and reinvestment decisions. Net earnings is the most comparable GAAP financial measure.

Free cash flow is a non-GAAP liquidity measure that the Company defines as operating cash flow reduced by capital expenditures, contingent payments on prior acquisitions, debt payments, tax benefits on stock option exercises and other investing activities. The Company utilizes free cash flow to evaluate its level of uncommitted cash flows generated from operations. Net cash flow from operating activities is the most comparable GAAP financial measure.

Management believes cash earnings and free cash flow are meaningful to investors as they provide analysis of operating results using the same measures used by the Company's chief decision makers in the execution of the Company's business strategies.

Following are reconciliations of cash earnings to GAAP earnings and free cash flow to cash flows from operating activities:

Cash Earnings

(in thousands, except per share data)

	Three Months Ended January 31,		Nine Months Ended January 31,	
	2003	2002	2003	2002
Net earnings (loss)	\$132,313	\$29,616	\$ 85,422	\$(29,179)
Amortization expense, net of taxes	9,999	9,765	30,108	28,687
Goodwill impairment	—	—	24,000	—
Cash earnings (loss)	\$142,312	\$39,381	\$139,530	\$ (492)
Earnings (loss) per diluted share	\$.73	\$.16	\$.46	\$ (.16)
Cash earnings (loss) per diluted share	\$.78	\$.21	\$.76	\$.00

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(in thousands)

	Nine Months Ended January 31,		Year Ended April 30,	
	2003	2002	2002	2001
Cash from operating activities	\$(366,749)	\$ (920,848)	\$ 741,446	\$248,351
Capital expenditures	(95,629)	(71,343)	(111,775)	(92,411)
Debt payments	(52,107)	(49,479)	(55,845)	(72,579)
Contingent payments on acquisitions	(20,256)	(15,386)	(16,833)	(5,145)
Tax benefit on stock option exercises	(31,168)	(55,004)	(57,809)	(2,235)
Changes in available for sale securities	259,161	57,514	91,252	367,080
Other changes, net	(8,027)	(9,869)	13,619	7,116
Free cash flow	\$(314,775)	\$(1,064,415)	\$ 604,055	\$450,177

Forward-looking information

The information contained in this Form 10-Q and the exhibits hereto may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Such statements are based upon current information, expectations, estimates and projections regarding the Company, the industries and markets in which the Company operates, and management's assumptions and beliefs relating thereto. Words such as "will," "plan," "expect," "remain," "intend," "estimate," "approximate," and variations thereof and similar expressions are intended to identify such forward-looking statements. These statements speak only as of the date on which they are made, are not guarantees of future performance, and involve certain risks, uncertainties and assumptions that are difficult to predict. Therefore, actual outcomes and results could materially differ from what is expressed, implied or forecast in such forward-looking statements. Such differences could be caused by a number of factors including, but not limited to, the uncertainty of laws, legislation, regulations, supervision and licensing by Federal, state and local authorities and self-regulatory organizations and their impact on any lines of business in which the Company's subsidiaries are involved; unforeseen compliance costs; the uncertainty that the Company will achieve or exceed its revenue, earnings and earnings per share growth goals and expectations for fiscal year 2003; the uncertainty that actual fiscal year 2003 financial results will fall within the guidance provided by the Company; the uncertainty as to the effect on the consolidated financial statements of the adoption of accounting pronouncements; risks associated with sources of liquidity for each of the lines of business of the Company; changes in economic, political or regulatory environments; changes in competition and the effects of such changes; the inability to implement the Company's strategies; changes in management and management strategies; the Company's inability to successfully design, create, modify and operate its computer systems and networks; the uncertainty of assumptions utilized to estimate cash flows from residual interests in securitizations and mortgage servicing rights; litigation involving the Company and its subsidiaries; the uncertainty any settlements in the RAL litigation will ultimately be approved by the courts; and risks described from time to time in reports and registration statements filed by the Company and its subsidiaries with the Securities and Exchange Commission. Readers should take these factors into account in evaluating any such forward-looking statements. The Company undertakes no obligation to update publicly or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes in market risk from those reported at April 30, 2002.

CONTROLS AND PROCEDURES

In conjunction with management, including the Chief Executive Officer and Chief Financial Officer, the Company has evaluated the effectiveness of the design and operation of its disclosure controls and procedures within 90 days prior to the filing date of this quarterly report. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer have concluded these controls and procedures are effective. There have been no significant changes in internal controls, or in other factors, which would significantly affect these controls subsequent to the date of evaluation.

Disclosure controls and procedures are designed to ensure information is recorded, processed, summarized and reported within the time periods specified by the Securities and Exchange Commission. Disclosure controls and procedures include controls and procedures that ensure accumulation and communication of information to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosures.

PART II — OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company reported in its current reports on Forms 8-K dated November 1, 2002, November 6, 2002, November 14, 2002, November 15, 2002 and November 18, 2002, and its quarterly report on Form 10-Q for the quarter ended October 31, 2002, certain events and information relating to class action litigation and putative class action litigation involving its subsidiaries' refund anticipation loan (RAL) program. The following is updated information regarding those cases identified in the Company's current report on Form 8-K dated November 6, 2002, in which developments occurred during the third quarter or subsequent thereto, as well as information concerning a putative class action RAL case filed during the third quarter.

Ronnie and Nancy Haese, et al. v. H&R Block Inc., et al., Case No. CV96-4213, District Court of Kleberg County, Texas, ("***Haese I***") and; ***Ronnie and Nancy Haese, et al. v. H&R Block Inc., et al.***, Case No. CV-99-314-D, District Court of Kleberg County, Texas ("***Haese II***"), filed originally as one action on July 30, 1996. The trial court judge in ***Haese I*** issued a letter on November 6, 2002, indicating that he intended to grant plaintiffs' motion for partial summary judgment and motion for forfeiture, thereby holding that a fiduciary relationship exists between a tax preparer and its customer and that the company and its franchisee must forfeit fees totaling \$74.9 million. On November 19, 2002, the Company announced that a settlement had been reached pursuant to which, if approved, the Company and its major franchisee would issue coupons to class members that may be redeemed over a five-consecutive-year period once there is final approval of the settlement and all appeals have been exhausted. Each class member would receive a packet containing 15 coupons under the settlement (one mailing). Three coupons would be redeemable each year — one for a \$20 rebate off tax services at Block offices, one that may be redeemed for TaxCut® Platinum tax preparation software, and one that may be redeemed

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for *Tax Planning Advisor*, a tax planning book. The defendants would also be responsible for the payment of court-approved legal fees up to \$49 million and expenses of class counsel up to \$900,000. Following the end of the third quarter and prior to the filing of the final settlement agreement with the court and any motions for preliminary approval of the settlement and legal fees and expenses of class counsel, the plaintiffs filed a motion asking the Texas court to direct that \$26 million of awarded class counsel fees be paid to the plaintiff class members. The defendants filed an objection to the motion, stating the motion was premature, defendants had not agreed to such a payment to the class as a part of the settlement, the defendants object to making payments to the plaintiff class on behalf of their class counsel, and the defendants should not be compelled to incur any expense related to such payments. That motion is pending. The settlement is subject to court approval and there are no assurances that such approval will be obtained.

Haese II arose from Plaintiffs' splitting off from **Haese I** claims based upon allegations of usury. In connection with the settlement in **Haese I**, plaintiffs have agreed to take action to obtain the dismissal of **Haese II**.

Veronica I. Martinez, et al. v. H&R Block, Inc., et al., Case No. 02-3629-E in the District Court of Nueces County, Texas. In connection with the settlement in **Haese I**, plaintiffs' counsel has agreed to take action to dismiss this putative class action.

Joel E. Zawikowski, et al. v. Beneficial National Bank, H&R Block, Inc., Block Financial Corporation, et al., Case No. 98 C 2178, United States District Court for the Northern District of Illinois, Eastern Division (referred to as **Cheryl Reynolds, et al. v. Beneficial National Bank, et al.** in Seventh Circuit Court of Appeals decision issued in April 2002). On remand from the Seventh Circuit Court of Appeals, the District Court held hearings in October and November 2002 with respect to the fairness and adequacy of the proposed settlement. At the conclusion of the fairness hearing on November 15, the judge took the matter under advisement, permitting the objectors to the proposed settlement to file briefs as to the fairness of the settlement and permitting the plaintiffs and defendants to file reply briefs in further support of the settlement. Briefing concluded in December 2002 and the judge has not yet ruled on the fairness of the settlement. There can be no assurances that the District Court will approve the settlement as currently contemplated.

Joyce A. Green, et al. v. H&R Block, Inc., Block Financial Corporation, et al., Case No. 97195023, in the Circuit Court for Baltimore City, Maryland. A hearing on the Company's motion for summary judgment on all counts was held on November 21, 2002, and the judge denied the motion on that day. The trial was scheduled for January 7, 2003. In response to defendants' motion to stay the trial, at a hearing on January 7, the judge granted the motion to stay the trial until a ruling on the fairness of the settlement in the **Zawikowski** case is rendered and all appeals of the Chicago ruling are exhausted.

Sandra J. Basile, et al. v. H&R Block, Inc. et al., April Term 1993 Civil Action No. 3246, in the Court of Common Pleas, First Judicial District of Pennsylvania, Philadelphia County. The Company moved to decertify the class in this matter and oral argument on the motion was held

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on December 16, 2002. The judge took the matter under advisement and a ruling has not yet been made.

Belinda Peterson, et al. v. H&R Block Tax Services, Inc., Case No. 95CH2389, in the Circuit Court of Cook County, Illinois. Defendants' motion to decertify the class is pending. This case is scheduled for trial in May 2003.

Levon and GERAL Mitchell, et al. v. H&R Block and Ruth R. Wren, Case No. CV-95-2067, in the Circuit Court of Mobile County, Alabama. The remaining claim in this matter is a breach of fiduciary duty claim relating to the RAL program. Class certification was denied by the court. That denial was reversed by the Alabama Supreme Court and remanded for further consideration. A hearing on a new motion to certify a class was held on February 21, 2003. The judge took the matter under advisement and has not yet ruled on it.

Deadra D. Cummins, et al. v. H&R Block, Inc., et al., Civil Action No. 03-C-134, is a putative class action filed on January 22, 2003, in state court in Kanawha County, West Virginia, in which plaintiffs allege three counts involving breach of fiduciary duty, breach of West Virginia statute on credit service organizations, breach of contract, unjust enrichment, and unfair or deceptive acts or practices with respect to the RAL program. The plaintiffs' complaint states that the class sought to be certified encompasses all West Virginia residents who participated in the "Rapid Refund" program for the past 10 years. The defendants have removed the case to federal court.

Paul White, et al. v. H&R Block, et al., Yuchong Smith, et al. v. H&R Block, Inc., et al., Richard J. Rodney, et al. v. H&R Block, Inc., et al., and Michael F. McCormack, et al. v. H&R Block, Inc., et al., Case Numbers 02CV8965, 02CV9661, 02CV9682 and 02CV9830, respectively in the United States District Court for the Southern District of New York, are matters filed in the third quarter of fiscal year 2003 in which the respective named plaintiffs seek to represent a class of shareholders who purchased the Company's stock between November 8, 1997 and November 1, 2002, and allege that the defendants violated Section 10(b)(5) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder by failing to disclose to shareholders various cases in which the Company had been sued regarding the RAL program. The four securities law cases have all been assigned to the same judge and consolidated for pre-trial matters. On January 13, 2003, the judge signed an order relieving the defendants from an obligation to respond to any of the four complaints until after a consolidated complaint is filed. The consolidated complaint is to be filed in March 2003, with the defendants' response due in April 2003. The Company believes the claims in these actions are without merit, and intends to defend them vigorously.

Shareholder Demand. A shareholder of the Company made a demand in November 2002 through counsel that the Company commence a civil action against the directors of the Company relating to the refund anticipation loan program and the matters that are involved in the **White** and similar cases noted above. The shareholder's demand indicated that a shareholder derivative action will be commenced if the demanded civil action is not commenced. The shareholder's counsel has, since receipt of the letter, agreed to relieve the Company and its Board of Directors from any obligation to respond to the demand at this time.

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In addition to the foregoing matters, **Armstrong Business Services, Inc., et al. v. H&R Block, Inc., et al.**, Case Number 99-CV-206379, filed April 13, 1999, in the Circuit Court of Jackson County, Missouri, is an action filed by 24 "major" franchisees against the Company and certain of its subsidiaries relating to alleged breaches of contract and other matters. The Company's subsidiary, HRB Royalty, Inc. (HRB Royalty), the franchisor under the applicable franchise agreements, filed a counterclaim and subsequently a motion for summary judgment seeking a declaration that HRB Royalty could elect not to renew the major franchise agreements when their present five-year terms came to an end. Such motion for summary judgment was granted in March 2001 and the plaintiffs appealed. The Missouri Court of Appeals ruled in favor of HRB Royalty on December 24, 2002, holding that the provision in the franchise agreements for automatic renewal will not be held to require the renewal for additional five-year periods "except upon the mutual assent of the parties." The plaintiff major franchisees' motions to the Missouri Court of Appeals for a rehearing and for transfer to the Missouri Supreme Court were denied in January 2003. In February 2003, the plaintiffs applied to the Missouri Supreme Court for transfer of the case to that court and such application was recently denied. In 2000, HRB Royalty notified the plaintiff major franchisees it would not be renewing their respective franchise agreements as of the next renewal date and that the agreements would terminate at that time. The renewal dates vary among the major franchisees. Pursuant to the terms of the applicable franchise agreements, HRB Royalty must pay a "fair and equitable price" to the franchisee or the franchisee's business and such price shall be no less than eighty percent of the franchisee's revenues for the most recent 12 months ended April 30, plus the value of equipment and supplies, and certain off-season expenses. While the Company expects to acquire the franchise businesses in the next several fiscal years, there is no certainty of the timing or cost of acquisition as to any franchise business.

In **Armstrong**, plaintiffs' claims against the Company and its subsidiaries remain in the trial court. In their second amended petition, the plaintiffs seek in excess of \$20 million in actual damages, punitive damages, unspecified statutory damages, declaratory, injunctive and other relief, including attorneys' fees under allegations of breach of contract, breach of the covenant of good faith and fair dealing, unfair business practices, state anti-trust violations, breach of fiduciary duty, prima facie tort, violations of various state franchise statutes, fraud and misrepresentation, waiver and estoppel, ambiguity and reformation, relief with respect to a post-termination covenant not to compete in the franchise agreements, and a request for a fair and equitable payment upon nonrenewal of the franchise agreements. The major franchisees allege, among other things, that the sale of TaxCut® income tax return preparation software and online tax services and the purchase of accounting firms encroached on their exclusive franchise territories. The defendants believe that the allegations against them are without merit and continue to defend the case vigorously. Management believes that amounts, if any, required to be paid by the Company and its subsidiaries in the discharge of liabilities or settlements relating to plaintiffs' claims in this litigation will not have a material adverse effect on the Company's consolidated results of operations or financial position.

The Company and its subsidiaries have from time to time been party to claims and lawsuits not discussed herein arising out of its business operations, including lawsuits concerning its preparation of customers' income tax returns, the electronic filing of customers' tax returns, the fees charged customers for various services, the Peace of Mind warranty program associated with income tax return preparation services, relationships with franchisees, and contract disputes.

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Such lawsuits include actions by individual plaintiffs, as well as cases in which plaintiffs seek to represent a class of similarly situated customers. The amounts claimed in these claims and lawsuits are substantial in some instances and the ultimate liability with respect to such litigation and claims is difficult to predict. The Company's management considers these cases to be ordinary, routine litigation incidental to its business, believes the Company and its subsidiaries have meritorious defenses to each of them, and is defending, or intends to defend, them vigorously. While management cannot provide assurance that the Company and its subsidiaries will ultimately prevail in each instance, management believes that amounts, if any, required to be paid by the Company and its subsidiaries in the discharge of liabilities or settlements will not have a material adverse effect on the Company's consolidated results of operations or financial position.

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

a) Exhibits

- 10.1 Amended and Restated Refund Anticipation Loan Operations Agreement dated as of January 6, 2003 among H&R Block Services, Inc., Household Tax Masters Inc. and Beneficial Franchise Company Inc.
- 10.2 Amended and Restated Refund Anticipation Loan Participation Agreement dated as of January 6, 2003 between Block Financial Corporation and Household Tax Masters Inc.
- 10.3 Waiver of Rights Under Amended and Restated Refund Anticipation Loan Participation Agreement dated as of January 6, 2003 among Block Financial Corporation, H&R Block Services, Inc. and Household Tax Masters Inc.
- 10.4 Employment Agreement dated December 2, 2002 between HRB Management, Inc. and Tammy S. Serati.
- 10.5 Employment Agreement dated December 13, 2002 between H&R Block Services, Inc. and Nana Mensah.
- 10.6 Severance and Release Agreement dated December 14, 2002 between HRB Management, Inc. and Stephanie R. Otto.
- 99.1 Certification by Chief Executive Officer pursuant to 18 U.S.C. 1350, as adopted by Section 906 of the Sarbanes-Oxley Act of 2002.
- 99.2 Certification by Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted by Section 906 of the Sarbanes-Oxley Act of 2002.

b) Reports on Form 8-K

The registrant filed a current report on Form 8-K dated November 1, 2002, reporting under Item 5 thereof its issuance that day of a press release containing the registrant's response to market rumors regarding litigation involving refund anticipation loans (RALs).

The registrant filed a current report on Form 8-K dated November 6, 2002, reporting under Item 5 thereof its issuance of press releases on November 6, 2002 and November 11, 2002, relating to the *Haese, et al. v. H&R Block, Inc., et al.* RAL class action litigation pending in Texas, and describing under such Item the *Haese* case and other pending RAL litigation.

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The registrant filed a current report on Form 8-K dated November 14, 2002, reporting under Item 5 thereof developments that day with respect to motions filed in the *Haese* RAL litigation pending in Texas.

The registrant filed a current report on Form 8-K dated November 15, 2002, reporting under Item 5 thereof developments that day with respect to a fairness hearing held with respect to a pending settlement in the *Zawikowski, et al. v. H&R Block, Inc. et al.* RAL class action litigation pending in Chicago, Illinois.

The registrant filed a current report on Form 8-K dated November 18, 2002, reporting under Item 5 thereof its issuance of a press release announcing the settlement of the *Haese* RAL class action litigation in Texas.

SIGNATURES

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

			H&R BLOCK, INC.

			(Registrant)
DATE	3/17/03	BY	/s/ Frank J. Cotroneo
	_____		_____
			Frank J. Cotroneo Senior Vice President and Chief Financial Officer
DATE	3/17/03	BY	/s/ Melanie K. Horstmeier
	_____		_____
			Melanie K. Horstmeier Vice President and Corporate Controller

FINANCIAL STATEMENT CERTIFICATION

I, Frank J. Cotroneo, Chief Financial Officer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of H&R Block, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls;
6. The registrant's other certifying officers and I have indicated in this quarterly report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: 3/17/03

/s/ Frank J. Cotroneo

Frank J. Cotroneo
Chief Financial Officer
H&R Block, Inc.

FINANCIAL STATEMENT CERTIFICATION

I, Mark A. Ernst, Chief Executive Officer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of H&R Block, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
 - a. designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b. evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - c. presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a. all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls;
6. The registrant's other certifying officers and I have indicated in this quarterly report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: 3/17/03

/s/ Mark A. Ernst

Mark A. Ernst
Chief Executive Officer
H&R Block, Inc.

AMENDED AND RESTATED
REFUND ANTICIPATION LOAN
OPERATIONS AGREEMENT

THIS AMENDED AND RESTATED REFUND ANTICIPATION LOAN OPERATIONS AGREEMENT dated as of January 6, 2003 (this "Agreement"), is made by and among H & R Block Services, Inc., a Missouri corporation ("Block Services"), on behalf of itself and in regard to its subsidiaries, H & R Block Tax Services, Inc., a Missouri corporation ("Block Tax Services"), HRB Royalty, Inc., a Delaware corporation ("Royalty," and together with Block Services and Block Tax Services, the "Block Companies"), Household Tax Masters Inc., a Delaware corporation ("Tax Masters"), for itself or in its capacity as servicer for the RAL Originator (as such term is defined herein) where appropriate under the circumstances, and Beneficial Franchise Company Inc., a Delaware corporation ("Beneficial Franchise," and together with Tax Masters, the "Household Companies"), and solely for purposes of Sections 8.5 and 8.20 herein, Household Bank, f.s.b. ("HB").

RECITALS

A. Block Services is in the income tax preparation business through various offices owned by Block Services or its Affiliates and participating franchisees throughout the United States.

B. Royalty is the owner of certain service marks and trademarks involving Block Companies.

C. In connection with the electronic processing of tax returns, Tax Masters facilitates Refund Anticipation Loans ("RALs") that to date have been made by HB or its predecessor and Refund Anticipation Checks ("RACs") that to date have been issued by HB or its predecessor.

D. Beneficial Franchise is the owner of the entire right, title and interest in and to United States Letters Patent No. 4,890,228 issued on December 26, 1989 and entitled: ELECTRONIC INCOME TAX REFUND EARLY PAYMENT SYSTEM, together with all claims for damage by reason of past infringement by anyone of said Letters Patent, by virtue of an assignment recorded in the U.S. Patent and Trademark office on April 3, 1991 on Reel 5630, Frame 34.

E. Beneficial Franchise is the owner of the entire right, title and interest in and to United States Letters Patent No. 5,193,057 issued on March 9, 1993 and entitled: ELECTRONIC INCOME TAX REFUND EARLY PAYMENT SYSTEM, together with all claims for damage by reason of past infringement by anyone of said Letters Patent, by virtue of an assignment recorded in the U.S. Patent and Trademark Office on April 3, 1991 on Reel 5630, Frame 34.

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F. Block Services, Royalty, HB, Tax Masters and Beneficial Franchise entered into that certain Refund Anticipation Loan Operations Agreement, effective July 19, 1996 (the "Original RAL Operations Agreement"), as amended by the First Amendment to the Refund Anticipation Loan Operations Agreement, dated as of January 1, 2000 (the "First Operations Amendment"), the Second Amendment to the Refund Anticipation Loan Operations Agreement, dated as of January 1, 2001 (the "Second Operations Amendment"), and the Third Amendment to the Refund Anticipation Loan Operations Agreement, effective as of November 1, 2001 (the "Third Operations Amendment," and together with the Original RAL Operations Agreement, the First Operations Amendment, and the Second Operations Amendment, the "RAL Operations Agreement").

G. HB has ceased its operations, and in connection therewith, Tax Masters has engaged Imperial Capital Bank ("ICB") to perform the origination function for RALs and issuing function for RACs.

H. Tax Masters and ICB have entered into a Sale and Servicing Agreement for RALs and RACs, dated as of October 30, 2002, by and between Tax Masters and ICB, which agreement such parties have amended to reflect the terms set forth in an Amended and Restated Sale and Servicing Agreement for RALs and RACs (as so amended and restated, the "Sale and Servicing Agreement"), which Sale and Servicing Agreement has been delivered to Block Services as representing the

basic agreement between Tax Masters and ICB regarding the RAL Program pursuant to which Tax Masters will be servicing the loans originated by ICB under the RAL Program.

I. Block Companies and Household Companies have entered into a letter agreement, dated November 5, 2002 (the "Expense Reimbursement Letter"), regarding reimbursement of Block Companies' expenses in connection with Household Companies' replacement of the RAL Originator.

J. Block Companies and Household Companies have entered into a letter agreement, dated November 11, 2002 (the "Letter Agreement"), pursuant to which Block Companies have consented to the substitution ("Substitution") of ICB for HB as the RAL Originator under the RAL Operations Agreement subject to certain conditions, including the condition that Block Companies and Household Companies use their best efforts to reach agreement no later than January 20, 2003 as to those changes to the RAL Operations Agreement and related agreements required to effectuate the Substitution and those changes to such agreements that are directly related to, and reasonably required to fairly take account of, the Substitution.

K. The parties desire to amend and restate the RAL Operations Agreement to reflect the termination of HB as a party to this Agreement in connection with the termination of HB as originator of RALs and issuer of RACs, to confirm the designation of ICB as the RAL Originator and RAC issuer for 2003 and to implement certain changes to the RAL Operations Agreement hereinafter set forth.

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AGREEMENT

NOW, THEREFORE, for and in consideration of the premises and of the agreements of the parties hereto and other good and valuable consideration, the sufficiency and receipt of which are hereby acknowledged, Block Companies, Household Companies and, solely for purposes of Sections 8.5 and 8.20 herein, HB hereby covenant and agree that the RAL Operations Agreement is hereby amended and restated in its entirety with respect to RALs made and RACs issued and other acts and events that occur from and after the effective date hereof by deleting the provisions of Sections 1.1 through 7.20 as the same now appear and by substituting therefor the following Sections 1.1 through 8.21:

1. RIGHTS, DUTIES AND OBLIGATIONS OF BLOCK SERVICES.

1.1 Preparation and Filing of Returns. Block Services shall prepare and file Federal, state and local income tax returns (collectively, the "Returns") for RAL Customers and shall be solely responsible for any liability to the Taxpayer, the Internal Revenue Service ("IRS") and other taxing authorities arising out of its preparation and filing of such Returns. For purposes of this Agreement, in connection with any RACs based on income tax refunds from state taxing authorities, Block Services shall complete any processing and necessary forms to enable the Electronic Filing of such state Returns, where available.

1.2 Marketing of RALs and RACs. Block Services agrees in connection with the operation of the RAL Program: (a) to market RALs and RACs to potential RAL Customers, including conducting marketing research, coordinating its RAL and RAC products with the needs of its customers and preparing and disseminating marketing and promotional materials; (b) to conduct such advertising; (c) to prepare such forms and other written materials; (d) to equip its company-owned offices with such computer equipment; (e) to develop or acquire such software; (f) to hire and train such personnel; and (g) to incur such expenses in connection with such marketing efforts; in each case as reasonably necessary in order to market, advertise and disseminate information with respect to the making of RALs and issuance of RACs to RAL Customers.

1.3 RAL Customers. With respect to RAL Customers, Block Services shall obtain certifications from each RAL Customer pursuant to Section 1.4 below. With respect to RAL Customers, Block Services shall also follow all qualifying procedures for RALs as set forth in Schedule 1.3 attached hereto ("Qualifying Procedures") that are being delivered by Tax Masters to Block Services in Tax Masters' capacity as servicer for the RAL Originator after consultation with the RAL Originator. The Initial Credit Criteria and Final Credit Criteria for any year during the term hereof will be delivered to Block Services by Tax Masters in Tax Masters' capacity as servicer for the RAL Originator after consultation with the RAL Originator pursuant to the procedures set forth in Section 6.2

below.

1.4 RAL and RAC Application and Certification Process. Block Services shall obtain information from each Applicant to complete an application for a RAL or an application for a RAC (each such application being hereinafter referred to, interchangeably, as "RAL Application") in a form developed by the RAL Originator and printed by Block Services, which RAL Application shall request from the Applicant certain information specified by Tax Masters

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as servicer for the RAL Originator after consultation with the RAL Originator. In addition, the RAL Application shall contain an authorization signed by the Applicant to use the Applicant's Return information for the loan application process in accordance with Section 301.7216-3(b) of the U.S. Treasury Department Regulations and shall also include such additional lawful consents, if any, as shall allow Tax Masters, or any Affiliate thereof, to make collections on any delinquent RAL as servicer for the RAL Originator and for Tax Masters and its Affiliates to solicit any RAL Customers for present and future loans and related products including, without limitation, deposit, insurance and mortgage loan products, subject to the limitations set forth in Section 7.2 herein. Consents for, and materials used in, the solicitation activities described in the immediately preceding sentence shall not mention the RAL Program, any names, logotypes or marketing slogans related to the RAL Program or any names, logotypes or marketing slogans of Block Services, its subsidiaries or affiliates without the prior written consent of Block Services. If an Applicant is in the military, a photo identification containing a service identification number may also be supplied and shall satisfy all requirements for acceptable forms of identification for such individual. The RAL Application shall also contain, among other certifications as Tax Masters, as servicer for the RAL Originator after consultation with the RAL Originator, shall reasonably require, a certification signed by the Applicant that he or she: (a) has not previously filed any Return for the applicable Tax Year, does not have any previous tax liabilities, delinquent student loans, or any other delinquent federally guaranteed or sponsored loans, or delinquent child support payments; (b) has not filed a petition (whether voluntary or involuntary) under any federal or state bankruptcy or insolvency laws; and (c) has not filed any power of attorney with the IRS or any state taxing authority and has no power of attorney presently in effect to direct any tax refund to any third party.

1.5 Completion of IRS Form No. 8453. Block Services shall be responsible for the completion of IRS Form 8453, which shall indicate the applicable check routing number designated by the RAL Originator and applicable RAL Originator's client account number consisting of an eight digit prefix followed by the primary social security number of the RAL Customer and the name of the RAL Originator as the financial institution. This form shall be signed by Block Services as Electronic Return Originator (as defined by the IRS) and by the RAL Customer and shall indicate that the account is a "checking" account and that the source is "other". Block Services shall cause the same aforesaid information to be contained in the appropriate data fields as part of the electronically filed Return.

1.6 Customer Copies. Block Services shall ensure that the RAL Customer receives a copy of the signed RAL Application, IRS Form 8453, together with any agreements and other disclosures or documents which Tax Masters as servicer for the RAL Originator may reasonably require. If the IRS Form 8453 needs to be revised, Block Services need not obtain another RAL Application from the Applicant.

1.7 Handling Documents. A copy of the signed RAL Application, the loan agreement completed by the RAL Customer and the loan disclosure statement provided to the RAL Customer shall be stored in each Applicant's client file maintained by Block Services. Further, Block Services shall retain the ability to regenerate a copy of the document notifying an Applicant of the reason the RAL Application was not approved, if applicable, containing also the specific reason marked on the document. Upon Tax Masters' written request, Block Services shall exercise its best efforts to forward such documents to Tax Masters. Those documents shall

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be sent to Tax Masters in accordance with the notice provisions contained in this Agreement unless Tax Masters notifies Block Services otherwise in writing. Block Services may dispose of such documents following the expiration of forty-eight (48) months after the preparation or receipt of same.

1.8 Completion of RAL and RAC Disbursement Checks. Block Services shall have the care and custody of consecutively numbered RAL Originator disbursement checks upon which Block Services, at the direction of Tax Masters as servicer for the RAL Originator, may affix a RAL Originator facsimile signature by way of an imprint of the authorized RAL Originator signatory and which Block Services shall keep secure and safeguard from any loss or misuse. Block Services shall deliver such checks to RAL Customers only in accordance with this Agreement. Such RAL and RAC checks shall be payable only at the RAL Originator. Block Services shall be responsible for loss, alteration or misuse of such checks to the extent set forth in Section 1.12 below.

1.9 Additional Communication Equipment and Lines. An entity appointed by Block Services shall order such communication lines between Columbus, Ohio (or other applicable location), and the Chicago, Illinois metropolitan area, as are determined by such entity to be necessary to support Block Services' projection of its maximum daily RAL and RAC volume, as well as full RAL Application follow-up information, within any one sixteen (16) hour day, using such protocol and process as is mutually agreed upon by Tax Masters as servicer for the RAL Originator and such entity. Such communication lines shall continue in place until such time as the parties hereto shall mutually agree to discontinue the same. If the parties mutually agree to discontinue the aforementioned communication lines at the conclusion of any Tax Period, then the parties agree for each subsequent Tax Period to order and install substantially similar communication lines during the same time periods heretofore mentioned. The cost of such communication lines shall not be borne by Block Services and Tax Masters shall ensure such costs are paid by the appropriate party. Block Services shall be responsible for, and shall bear the cost of, modems required for such communication lines in Columbus, Ohio (or other applicable location). Tax Masters shall be responsible for, and shall bear the cost of, modems required for such communication lines in the Chicago, Illinois metropolitan area.

1.10 Processing RAL and RAC Requests. Block Services and Tax Masters shall in good faith cooperate regarding the contents of Block Services' Electronic Filing Software and Tax Masters' software in an effort to assure prompt and efficient transmission of data between Block Services, Tax Masters and RAL Originator. Block Services shall extract all RAL and RAC data from its IRS transmission file each time a Return is sent to the IRS in accordance with the Electronic Data Processing Guidelines established by the parties. The Electronic Data Processing Guidelines may be revised upon mutual agreement of the parties from time to time to accommodate any changes to Electronic Data Processing Systems or software no later than July 15th of each year during the term of this Agreement. With respect to a RAL Application which has been designated on behalf of the RAL Originator by Tax Masters' software program as an Instant RAL Application, Block Services shall first forward such RAL Application to Tax Masters, after which Block Services shall electronically transmit the Return, or cause it to be transmitted, to the IRS and then receive positive or negative acknowledgment of the Return's acceptance from the IRS for Electronic Filing, which acknowledgment shall also include, if available, the IRS explanation of the reason the Return was rejected, as described in Chapter 3 of

the IRS e-file Handbook for Authorized IRS e-file Providers of Individual Income Tax Returns (Publication 1345, including Rev. Proc. 2000-31), as the same may be amended from time to time ("Notification"). With respect to a RAL Application which has not been designated on behalf of the RAL Originator by Tax Masters' software program as an Instant RAL Application, Block Services shall not forward such RAL Application to Tax Masters without having electronically transmitted the Return, or causing it to be transmitted, to the IRS and without having received positive acknowledgement of the Return's acceptance from the IRS for Electronic Filing, which acknowledgment shall also include, if available to the RAL Originator, the Notification. In the event it becomes infeasible to process RAL Applications in the manner specified above in this Section 1.10 due to circumstances or events beyond the control of the parties hereto, then the parties shall endeavor in good faith to take all reasonable actions necessary to promptly modify the RAL Program in a manner resolving the problems caused by such unfeasibility to process RAL Applications. These modifications may include without limitation, the Final RAL and RAC Fees, the Final Credit Criteria and a

reasonable fee to compensate Tax Masters as servicer for the RAL Originator for any additional increase in the cost of funds resulting from a modification of the aforesaid procedures; provided, however, that in all events the parties shall retain their rights to terminate the Agreement in accordance with the procedures hereinafter set forth. Block Services shall be responsible for accurately transmitting to Tax Masters on behalf of Block Offices which use Block Services to transmit such RAL Applications to Tax Masters as servicer for the RAL Originator all material information contained in the RAL Application including without limitation social security numbers ("Information"), as received from the RAL Customer or the Corporate Franchise. Block Services shall notify all Block Offices of the importance of accurate transmission of such Information and shall consult with Tax Masters as servicer for the RAL Originator to develop a system for eliminating, to the extent practicable, errors in such transmission by such Block Offices. Tax Masters shall be responsible for forwarding to the RAL Originator such Information received from Block Services by Tax Masters pursuant to this Section 1.10 as requested by the RAL Originator. Block Services shall pay Tax Masters as servicer for the RAL Originator the amount of any RAL which is not collected by Tax Masters as servicer for the RAL Originator to the extent, and only to the extent, that the failure of Tax Masters as servicer for the RAL Originator to collect such RAL (whether through Direct Deposit or collection from the RAL Customer) is the result of the failure of Block Services to transmit accurately Information as received from the RAL Customer or a Corporate Franchise; provided, however, that Tax Masters as servicer for the RAL Originator must first show that diligent and timely efforts were made to make such collections, such efforts to include an initial contact with the RAL Customer within forty-five (45) days after the clearance of the RAL check by RAL Originator. Such initial contact may consist of the sending of a first collection notice to the RAL Customer and reasonable efforts thereafter to effect collection. All amounts, if any, owed by Block Services under this Section 1.10 shall be paid to Tax Masters as servicer for the RAL Originator in one lump sum within sixty (60) days after Tax Masters verifies that the failure of collection was caused by failure of Block Services to transmit accurately the Information. Block Services shall have no obligation to Tax Masters as servicer for the RAL Originator if the failure of collection is due to either a RAL Customer or a Corporate Franchise giving Block Services inaccurate Information.

1.11 Providing RAL Customer Returns. For collection purposes, Block Services shall provide Tax Masters with a copy of each RAL Customer's electronically filed Returns in the format prescribed by the IRS promptly after the RAL Application is transmitted to Tax Masters,

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but in no event later than May 30th following such Tax Period. Should interactive processing not be available, such transmission shall only be made after interactive processing is available, or in one batch delivery or transmission not later than May 30 following each Tax Period. In the event Tax Masters needs any RAL Customer's Returns for collection purposes prior to May 30 following each year's Tax Period, then upon Tax Masters' request, and to the extent practicable, Block Services shall promptly forward such RAL Customer's Returns to Tax Masters.

1.12 Lost RAL or RAC Checks. If a RAL or RAC check disbursed by a Block Office has become lost, or in the case where the RAL Customer has not received the check within fourteen (14) days after such RAL Customer's check is mailed when Tax Masters as servicer for the RAL Originator is mailing the check to a RAL Customer in accordance with Section 8.8, Block Services shall notify Tax Masters as servicer for the RAL Originator to stop payment upon notification from the RAL Customer that the RAL Customer has lost or not received such Check. In either case, Block Services shall directly contact Tax Masters as servicer for the RAL Originator to have a new check issued and obtain from such RAL Customer an indemnifying bond, in a form satisfactory to Tax Masters as servicer for the RAL Originator, holding the RAL Originator free from all costs and expenses or other losses in the event both checks are subsequently presented for payment.

1.13 Compliance with Laws, Rules and Regulations. In connection with Block Services' preparation of Returns, it shall comply with all applicable laws, rules and regulations, and shall follow all instructions reasonably prescribed by Tax Masters as servicer for the RAL Originator with respect to the preparation and processing of RAL Applications.

1.14 Indemnification. Except as otherwise limited by this Agreement, Royalty, Block Services and Block Tax Services (collectively, the "Block Indemnifying Parties") shall indemnify, hold harmless and reimburse Beneficial Franchise and/or Tax Masters and their respective Affiliates (whichever has incurred the loss) (collectively the "Block Indemnified Parties"), its officers and directors and employees, for all expenses and costs, including without limitation, attorneys' fees, judgments, penalties, payments of other direct expenses and payments in settlement or other disposition of, or in connection with, any claims, disputes, controversies or litigation arising out of Block Services' performance of its duties and responsibilities under this Agreement, including without limitation, liability in connection with the loss, alteration or misuse of disbursement checks or improper completion of disbursement checks, regardless of by whom caused, after delivery of same to Block Services and prior to delivery thereof to the RAL Customer. Notwithstanding any other provision herein, if the Block Indemnifying Parties breach any of their obligations hereunder and any such breach results in a claim for indemnification by the RAL Originator against any Block Indemnified Party, such Block Indemnified Party shall have the right to indemnification from the Block Indemnifying Parties pursuant to the preceding sentence. Block Services may retain attorneys of its own selection to represent it at Block Services' expense. Block Services shall direct the defense of the claim; provided, however, Block Services shall not compromise or settle any such claim or action without prior approval of Tax Masters and Beneficial Franchise, as applicable. If Beneficial Franchise or Tax Masters is named a party to any action or proceeding for which Block Services has a duty of indemnification pursuant to this Section 1.14 Beneficial Franchise and Tax Masters, as applicable, shall have the right to directly defend any such action or proceeding by retaining attorneys of its own selection to represent it at Block Services' expense. Neither Beneficial

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Franchise nor Tax Masters shall compromise or settle any such claim or action without prior consultation with Block Services.

2. RIGHTS, DUTIES AND OBLIGATIONS OF TAX MASTERS.

2.1 Facilitating RAL Processing. Tax Masters shall act as a facilitator in the processing of RALs between Block Services, Tax Masters and the RAL Originator in accordance with the Electronic Data Processing Guidelines established by the parties.

2.2 [RESERVED].

2.3 Compliance with Laws, Rules and Regulations. In connection with Tax Masters facilitating the processing of RALs, Tax Masters shall comply with all applicable laws, rules, and regulations.

2.4 Indemnification. Except as otherwise limited by this Agreement and as specifically set forth in Section 1.12 with respect to the care and custody of disbursement checks by Block Services, Tax Masters will indemnify, hold harmless and reimburse Royalty, Block Services, Block Tax Services and/or Beneficial Franchise or their respective Affiliates (whichever has incurred the loss) (the "Tax Masters Indemnified Parties"), its officers, directors and employees for all expenses and costs, including but not limited to, attorneys' fees, judgments, penalties, payments of other direct expenses and payments in settlement or other disposition of, or in connection with, any claims, disputes, controversies or litigation arising out of any violation of the Federal Truth in Lending Act or Regulation Z of the Federal Reserve Board and other applicable federal and state banking and consumer finance laws and regulations, caused by either Tax Masters or the RAL Originator involving any of the preprinted terms and disclosures set forth on the check to RAL Customers from the RAL Originator, relating to the procedures for applying for or obtaining RALs, relating to cross-collections involving RAL Customers or customers of other financial institutions, relating to the RAL Applications, or the failure of Tax Masters to perform its duties and responsibilities under this Agreement. Tax Masters may retain attorneys of its own selection to represent it at Tax Masters' own expense. Tax Masters shall direct the defense of the claim; provided, however, Tax Masters shall not compromise or settle any claim or action without the prior approval of Block Services, Block Tax Services or Beneficial Franchise as applicable. If Block Services, Block Tax Services or Beneficial Franchise is named a party to any action or proceeding for which Tax Masters has a duty of indemnification pursuant to this Section 2.4, Block Services, Block Tax Services or Beneficial Franchise, as applicable, shall have the right to directly defend

any such action or proceeding by retaining attorneys of its own selection to represent it at Tax Masters' expense. Provided, however, neither Block Services, Block Tax Services nor Beneficial Franchise shall compromise or settle any such claim or action without prior consultation with Tax Masters. Notwithstanding any other provision herein, in connection with the defense of any such claim, Tax Masters shall have the right to consult with the RAL Originator, including providing any documentation to the RAL Originator that Tax Masters deems reasonably appropriate. All documentation so provided to the RAL Originator shall be subject to the provisions set forth in the agreement between Tax Masters and the RAL Originator with respect to the RAL Originator's right to retain such documentation.

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2.5 Cashiers' Checks. Pursuant to the terms of the agreement between Tax Masters and the RAL Originator, all RAL checks, RAC checks, denied RAL and excess checks issued by the RAL Originator will be cashier's checks.

2.6 Review of Marketing and Collection Materials. At Block Services' request, and in all cases where Tax Masters', the RAL Originator's or Beneficial Franchise's name or trade names are used in such materials, Tax Masters as servicer for the RAL Originator shall review, and shall have the right to provide for the RAL Originator to review, the marketing materials in question and shall make reasonable efforts to comment upon such materials within two (2) weeks of receipt thereof. At Tax Masters' request, and in all cases if Block Services' name or trade names are used in the materials, Block Services shall review the marketing materials in question and shall make reasonable efforts to comment upon the same within two (2) weeks of the receipt thereof. If any such marketing materials describe performance of obligations in connection with the RAL Program required by a party other than the party preparing same, such other party's approval of the materials shall be obtained prior to use thereof. Any collection letters developed by Tax Masters shall be in a format reasonably acceptable to Block Services.

2.7 Review of RAL or RAC Checks and Disclosure Statement. Tax Masters shall review the RAL or RAC checks of the RAL Originator and the disclosure statement developed by RAL Originator and shall propose instructions to RAL Originator, concerning the modifications it deems necessary to such checks and disclosure statement in order to comply with the Federal Truth in Lending Act and Regulation Z requirements, as Tax Masters deems necessary after consultation and agreement with the RAL Originator. Tax Masters agrees to provide, at its cost, such instruments (including the RAL and RAC checks of the RAL Originator and envelopes containing Block Services' name on the outside) in accordance with Block Services' specifications and Section 5.2 below, in order that such instruments are compatible with Block Services' processing equipment and standards of trademark usage.

3. RIGHTS, DUTIES AND OBLIGATIONS OF TAX MASTERS AS SERVICER FOR RAL ORIGINATOR.

3.1 Establishment of RAL and RAC Accounts and Making of Loans.

(a) Designation of RAL Originator. In connection with HB's cessation of operations, Tax Masters has designated ICB as the RAL Originator.

(b) Establishment of Accounts. Except as otherwise limited by this Agreement, Tax Masters shall process RAL and RAC Applications for the 2003 Tax Period and subsequent Tax Periods during the term of this Agreement as servicer for the RALs and RACs with respect to such Applications received electronically from Block Services by the RAL Originator according to the RAL Originator's Final Credit Criteria, within the same day of the RAL Originator's receipt; provided, however, in either case, such Applications must be received by Tax Masters as servicer for the RAL Originator by 9:00 a.m. Eastern Standard or Daylight Savings Time (as the case may be). On behalf of the RAL Originator, Tax Masters as servicer shall establish an account ("RAL Account") for the RAL Customer and the RAL Originator (and any successor participant in all or any portion of a RAL) shall have the right to offset against the RAL and RAC all sums received from the IRS or state taxing authorities which are deposited in

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the RAL Account in connection with such RAL Customer's refund up to the amount of the RAL or RAC inclusive of any Final RAL and RAC Fee or other fees or charges. In the event that a RAL Customer is mailed a refund check rather than receiving the refund electronically in the RAL Account, or receives a refund less than the amount anticipated, the RAL Originator shall have the right under the RAL Check Loan Agreement with the RAL Customer to be paid directly by such RAL Customer. Such check may be modified from time to time to comply with regulatory requirements.

(c) Making of Refund Anticipation Loans. Notwithstanding the foregoing, the RAL Originator is not obligated to make a loan to a RAL Customer until such RAL Customer's RAL Application is approved by Tax Masters as servicer for the RAL Originator in accordance with the RAL Originator's Final Credit Criteria. Subject to the Final Credit Criteria and approval of the loans as aforesaid, the RAL Originator has committed to (and Tax Masters shall ensure that all future RAL Originators commit to) make RALs to all customers who make RAL Applications for same at, or whose Returns or RAL Application is processed through, any Block Office. Notwithstanding any other provision of this Agreement to the contrary, Tax Masters as servicer for the RAL Originator shall process such RALs or RACs on terms, and provide a level of services to RAL Customers, which are reasonably competitive with the terms and level of services offered by at least one or more Other RAL Originators (as defined below) to their customers. In establishing such reasonably competitive terms, Tax Masters as servicer for the RAL Originator shall in its good faith judgment design and recommend for approval by the RAL Originator a RAL Program that balances the need for high volumes with adequate fee pricing to generate optimum RAL Program revenues. If Block Services notifies Tax Masters on or after January 1, but on or before October 1 of any Tax Period during the term hereof that the terms pursuant to which the RAL Originator makes loans to RAL Customers, or the level of services provided to RAL Customers, are not reasonably competitive with the terms or level of services being offered or to be offered by at least one or more other RAL originators which make RALs or RACs similar to those contemplated by this Agreement ("Other RAL Originators"), Tax Masters as servicer for the RAL Originator shall recommend to the RAL Originator modifications to the RAL Program, or to the level of services provided to such customers, in a manner which makes such terms and level of services reasonably competitive with the terms and level of services offered by at least one or more Other RAL Originators. Any such modification shall be made effective for the first full Tax Period following such notification. If such notification is given to Tax Masters as servicer for the RAL Originator after October 1 of any Tax Period during the term hereof, then the RAL Originator shall not be required to modify its program as described above, if such modification cannot reasonably be made more promptly, until the commencement of the second full Tax Period which begins after such notification.

3.2 Deduction of Additional Charges. Tax Masters as servicer for the RAL Originator shall upon receipt of a RAL Customer's check reconciliation record remit on the same banking business day directly by way of an ACH credit to the appropriate Block Offices' company account the additional fees or charges authorized by the RAL Customer for payment to the Block Office, including without limitation, tax preparation fees and electronic filing fees. In the event it becomes necessary to process a significant number of RAL Applications resulting in a significant backlog in Tax Masters as servicer for the RAL Originator remitting to the Block Offices the aforesaid additional fees and charges, then Tax Masters, as servicer for the RAL Originator, shall notify Block Services of the delay and at such time the parties will negotiate in

good faith a reasonable fee to compensate Block Services for any additional increase in Block Services' cost of funds resulting from such delay in remitting such fees and charges.

3.3 Replacement RAL and RAC Checks. In connection with Section 1.12 relating to lost checks, Block Services shall issue a RAL Originator replacement check to the RAL or RAC Customer upon receipt from Tax Masters as servicer for the RAL Originator of an electronic approval to issue such check within twenty-four (24) hours after receiving an electronic indication from Block Services that Block Services has in its possession an indemnifying bond executed by the RAL Customer. Such electronic indication shall constitute a conclusive presumption of receipt by Block Services of such indemnifying bond and Block Services shall indemnify and hold Tax Masters and the RAL Originator harmless from any loss in the event such indemnifying bond is lost or has in fact not

been obtained.

3.4 [RESERVED]

3.5 Compliance with Laws, Rules and Regulations. In connection with RAL Applications and the procuring, processing and extension of RALs, Tax Masters as servicer for the RAL Originator shall comply with all applicable laws, rules and regulations. In addition, Tax Masters shall enforce the provisions of the agreement between Tax Masters and the RAL Originator requiring the RAL Originator to comply with all applicable laws, rules and regulations.

3.6 RAL Originator Sale and Servicing Agreement. Block Services acknowledges that it has received a copy of the Sale and Servicing Agreement entered into by Tax Masters with ICB. Without the prior written consent of Block Services, such consent not to be unreasonably withheld, conditioned or delayed, Tax Masters hereby agrees not to amend such agreement in any way that (a) modifies or alters the rights of ICB to use (i) Block Services' or any of its Affiliates' tradenames, trademarks and the like or (ii) RAL Customer information other than in its capacity as a RAL Originator, or (b) would materially adversely affect any of the rights of Block Services associated with the RAL Program. Tax Masters shall strictly enforce the provisions of the Sale and Servicing Agreement prohibiting ICB and its Affiliates from soliciting RAL Customers for any other product or service.

3.7 Indemnification. Except as otherwise limited by this Agreement and except as specifically set forth in Section 1.12 with respect to the care and custody of disbursement checks by Block Services, Tax Masters will indemnify, hold harmless and reimburse Beneficial Franchise, and any of the Block Companies or their respective Affiliates (whichever has incurred the loss), its officers, directors and employees for all direct out-of-pocket expenses and costs, including but not limited to, attorneys' fees, judgments, penalties, payments of other direct expenses and payments in settlement or other disposition of, or in connection with, any claims, disputes, controversies or litigation arising out of (i) the failure of Tax Masters to perform its duties and responsibilities under this Agreement, or (ii) the failure of the RAL Originator to perform its duties and responsibilities under any agreement between Tax Masters and the RAL Originator relating to the RAL Program. Notwithstanding any other provision herein, if Tax Masters breaches any of its obligations hereunder and any such breach results in a claim for damages by the RAL Originator against any of the Block Companies or their Affiliates, then such Block Company and such Affiliate shall have the right to indemnification from Tax Masters

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pursuant to the preceding sentence. Tax Masters may retain attorneys of its own selection to represent it at Tax Masters' expense. Tax Masters shall direct the defense of the claim; provided, however, Tax Masters shall not compromise or settle any claim or action without the prior approval of Block Services and Tax Masters. If Block Services, Block Tax Services or Beneficial Franchise is named a party to any action or proceeding for which Tax Masters has a duty of indemnification pursuant to this Section 3.7, Block Services, Block Tax Services or Beneficial Franchise, as applicable, shall have the right to directly defend any such action or proceeding by retaining attorneys of its own selection to represent it at Tax Masters' expense. Provided, however, neither Block Services nor Block Tax Services nor Beneficial Franchise shall compromise or settle any such claim or action without prior consultation with Tax Masters.

4. RIGHTS, DUTIES AND OBLIGATIONS OF BENEFICIAL FRANCHISE.

4.1 Licenses. Beneficial Franchise hereby grants to Block Services a nonassignable, nonexclusive right and license under U.S. Patent No. 4,890,228 and U.S. Patent No. 5,193,057 ("Patent Rights") to use any data processing system or any method falling within the scope of any claim of the Patent Rights. Beneficial Franchise also grants to Block Services the exclusive right to grant sublicenses to use any data processing system or method falling within the scope of any claim of the Patent Rights to any Person or entity which is involved in the processing of RALs or RACs (whether through Electronic Filing, or the taking, presenting or handling of applications for RALs or RACs) but only to the extent that the RAL or RAC is processed in any manner through an Electronic Filing system majority owned or operated by Block Services or used by any Block Office for a substantial portion of such office's Electronic Filings. Such Person or entity shall hereinafter be referred to as a "Block RAL Processor". Block Services agrees to grant such a sublicense to any Major Franchisee of

Block Services which selects RAL Originator to make RALs or RACs to customers of such Major Franchisee or subfranchisees of such Major Franchisee. Any sublicense granted by Block Services shall contain provisions corresponding to those of this Agreement regarding termination of Block Services' Patent Rights and shall not include the right to sublicense to other parties. Beneficial Franchise hereby waives and fully releases Block Services and any Block RAL Processor from any claims for infringement of Patent No. 4,890,228 and Patent No. 5,193,057 arising from RALs or RACs made prior to or during the terms of Block Services' rights under the license granted in this Section.

4.2 Warranties. Beneficial Franchise represents and warrants that it is the owner of Patent Rights and has the right to grant the rights and licenses described herein. BENEFICIAL FRANCHISE MAKES NO WARRANTIES, EXPRESS OR IMPLIED, REGARDING THE SUBJECT MATTER OF THESE LICENSES.

4.3 Indemnification. Except as otherwise limited by this Agreement and as specifically set forth in Section 1.12 with respect to the care and custody of disbursement checks by Block Services, Beneficial Franchise will indemnify, hold harmless and reimburse Tax Masters, Royalty and Block Services or their respective Affiliates (whichever has incurred the loss) (the "Beneficial Franchise Indemnified Parties"), its officers, directors and employees for all direct out-of-pocket expenses and costs, including but not limited to, attorneys' fees, judgments, penalties, payments of other direct expenses and payments in settlement or other disposition of, or in connection with, any claims, disputes, controversies or litigation arising out

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of the failure of Beneficial Franchise to perform its duties and responsibilities under this Agreement or for any claims, disputes, controversies or litigation arising out of or involving Patent Nos. 4,890,228 and 5,193,057. Beneficial Franchise may retain attorneys of its own selection to represent it at Beneficial Franchise's expense. Beneficial Franchise shall direct the defense of the claim; provided, however, Beneficial Franchise shall not compromise or settle any claim or action without the prior approval of Block Services and Tax Masters, as applicable. If Block Services or Tax Masters is named a party to any action or proceeding for which Beneficial Franchise has a duty of indemnification pursuant to this Section 4.3, Block Services or Tax Masters, as applicable, shall have the right to directly defend any such action or proceeding by retaining attorneys of its own selection to represent it at Beneficial Franchise's expense. Neither Block Services nor Tax Masters shall compromise or settle any such claim or action without prior consultation with Beneficial Franchise.

4.4 Expiration of Licenses. Block Services' licenses under Section 4.1 above shall run until the termination of this Agreement in accordance with Sections 6.1 or 6.3, as applicable, except under those circumstances set forth in Section 6.3, pursuant to which the licenses shall survive the termination of this Agreement ("Survival Provisions"). Unless Block Services' licenses survive termination pursuant to the Survival Provisions, termination of Block Services' licenses under the Patent Rights shall terminate any sublicenses granted by Block Services.

5. LICENSE AND SUBLICENSE TO TAX MASTERS OF CERTAIN RIGHTS.

5.1 Sublicense of Rights Under Patent. Block Services hereby grants to Tax Masters (including in its capacity as servicer for the RAL Originator) a nonexclusive and nonassignable right and license under the Patent Rights to use, and the right to sublicense to the RAL Originator to use, any data processing system or any method falling within the scope of any claim of the Patent Rights in connection with the making of RALs and issuing of RACs to any RAL Customer which uses a Block Office for Electronic Filing of a Return.

5.2 License of Trademarks. Royalty hereby grants to Tax Masters (including in its capacity as servicer for the RAL Originator) a nonexclusive and nonassignable right and license to use, and to sublicense to the RAL Originator to use, the name and trade or service mark "H & R Block" and such other trade or service marks that Block Services may from time to time designate for use in connection with its RAL Program (collectively, the "Block Licensed Marks") in connection with the making and processing of RALs and RACs for RAL Customers. Neither Tax Masters nor its Affiliates shall use, nor shall any sublicense by Tax Masters to the RAL Originator permit the RAL Originator to use, the Block Licensed Marks for any purpose except the purposes specifically set forth

herein. Any use of the Block Licensed Marks and all goodwill generated thereby shall inure to the benefit of Royalty. All uses of the Block Licensed Marks shall be approved in advance by Royalty and shall be at all times in compliance with any standards which Royalty may impose in writing from time to time regarding such use. All rights in and to the Block Licensed Marks which are not specifically granted to Tax Masters shall remain with Royalty. Tax Masters shall cooperate, and shall cause the RAL Originator pursuant to the terms of any sublicense to cooperate, with Royalty in the protection and defense of the Block Licensed Marks and in the prosecution, at Royalty's sole option, of infringers of the Block Licensed Marks. Tax Masters shall not register nor seek to register, and any sublicense by Tax Masters to the RAL Originator shall prohibit the RAL Originator from registering or seeking to

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register, any trade or service mark, logotype or commercial symbol used by either of them in the exercise of the rights licensed under this Section 5.2 or sublicensed by Block Services to Tax Masters pursuant to the immediately preceding Section 5.1 of this Agreement. Royalty waives and releases Tax Masters, from and against, any and all claims of liability arising in any manner from the use by Tax Masters of the Block Licensed Marks prior to July 19, 1996.

5.3 Access to Block Offices. Tax Masters shall, with Block Services' prior written consent, have access to the Block Offices (to the extent it is able to do so with respect to Corporate Franchises) for the purpose of assisting and facilitating the operation of the RAL Program at such Block Offices. Any consent of Block Services shall be in accordance with a procedure mutually agreed upon by Block Services and Tax Masters on or before August 1 of each Tax Year during the term hereof.

5.4 License Fees. Tax Masters as servicer for the RAL Originator shall cause to be paid to Block Services a license fee of \$6.88 for each RAC issued by the RAL Originator pursuant to this Agreement during the 2003 Tax Period and future Tax Periods, except that there shall be no license fee for a RAC for which a RAL Customer has chosen to receive his or her funds by Direct Deposit into his or her IRA or Auto Investor account at an Affiliate of Block Companies. Tax Masters as servicer for the RAL Originator shall also cause to be paid to Block Services a license fee of \$9.00 for each RAL approved by RAL Originator pursuant to this Agreement that is originated out of a Block Office. The license fees described in this Section 5.4 (the "License Fees") shall be paid by credit to Block Services' account by ACH credit to the appropriate Block Office's company account. The Block Licensed Marks and access granted by Block Services to Tax Masters (including in its capacity as servicer for the RAL Originator) shall terminate upon termination of this Agreement for whatever reason.

6. TERM; ANNUAL DETERMINATION OF RAL AND RAC FEES; TERMINATION; EFFECT OF TERMINATION.

6.1 Term of Agreement; Renewal. The term of this Agreement shall commence as of July 19, 1996 and shall expire on June 30, 2006 ("Term"). In the event this Agreement has not been sooner terminated as set forth in Section 6.3 below, the parties agree to review this Agreement prior to each Tax Period with a view toward entering into reasonable, good faith discussions concerning revisions to the relationship represented by the terms hereof, among Block Companies and Household Companies regarding the making of RALs and issuing of RACs. Such revisions, if any, shall be upon such terms as are mutually agreeable to the parties thereto. If such revisions are not agreed to, this Agreement shall continue on the terms and conditions set forth herein.

6.2 Annual Determination of RAL and RAC Fees and Credit Criteria.

(a) Tax Masters as servicer for the RAL Originator, after consultation with the RAL Originator, annually shall make an initial determination of the RAL and RAC fees to be paid by each RAL Customer (the "Initial RAL and RAC Fees"). Tax Masters shall provide Block Services with such Initial RAL and RAC Fees no later than August 15 of each year, with the actual final RAL and RAC fees to be established by Tax Masters as servicer for the RAL

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Originator, after consultation with the RAL Originator, no later than September

15 of each year ("Final RAL and RAC Fees").

(b) Tax Masters as servicer for the RAL Originator, after consultation with the RAL Originator, shall make an initial determination of the RAL credit criteria no later than August 15 of any year during the Term ("Initial Credit Criteria") and, after consultation with the RAL Originator, shall establish final credit criteria ("Final Credit Criteria") together with the Qualifying Procedures on Schedule 1.3 no later than September 15 of such year for the ensuing Tax Period.

(c) Tax Masters as servicer for the RAL Originator, after consultation with the RAL Originator, shall provide to Block Services as Schedule I to this Agreement, the Initial Credit Criteria and the Initial RAL and RAC Fees. Such Schedule may be updated by Tax Masters as servicer for the RAL Originator, after consultation with the RAL Originator, on or before September 15 of each year.

(d) On or before September 15 of each year, Tax Masters as servicer for the RAL Originator, after consultation with the RAL Originator, agrees to provide to Block Services as Schedule 1.3 to this Agreement the Qualifying Procedures, and as Schedule II to this Agreement the Final Credit Criteria and the Final RAL and RAC Fees for the ensuing Tax Period provided, however, that in the event that significant external events or occurrences beyond Tax Masters' control become known to Tax Masters at any time after Tax Masters' determination of the Final Credit Criteria and Final RAL and RAC Fees each year that are likely to affect materially net RAL and RAC revenues of Tax Masters and the RAL Originator for that year, Tax Masters as servicer for the RAL Originator, after consultation with the RAL Originator may, after discussion with Block Services, and upon not less than ten (10) days (or two (2) days during any Tax Period) notice to Block Services promptly modify the RAL Program Final Credit Criteria or Final RAL and RAC Fees but only to an extent which is reasonable under the circumstances, and only until the effect of such event or occurrence ends or until the end of the first Tax Period in which such event or occurrence has or is likely to have the above-described effect.

(e) Notwithstanding any other provision in this Agreement, the RAL Originator, in its exclusive discretion, shall, on advice and recommendation of Tax Masters as servicer for the RAL Originator, establish the Initial RAL and RAC Fees, the Final RAL and RAC Fees, the Initial Credit Criteria and the Final Credit Criteria used by Tax Masters as servicer for the RAL Originator in the RAL Program.

6.3 Termination and Cure.

(a) Termination. Any party may at its option terminate this Agreement upon ten (10) days prior written notice to all other parties if (i) any other party is in material default in the performance of any of its obligations or duties under this Agreement and the party in default shall fail to commence cure within such 10-day period or shall fail thereafter diligently to prosecute a cure to completion within a reasonable time thereafter, which reasonable time shall be based on the nature of the default and the steps required to cure, but which in all events shall not exceed forty-five (45) days from the notice of default (or ten (10) days from the notice of

default during a Tax Period), provided, however, that in all events any such cure must be accomplished without substantial unreimbursed expense or damage to any other party by reason of the cure; (ii) the IRS and/or state taxing authority withdraws or materially changes the implementing revenue procedures sanctioning RALs or RACs to the substantial detriment of that party; (iii) the operation of the RAL Program or the Electronic Filing program is made infeasible or impractical by (x) legal or regulatory determinations, enactments or interpretations or (y) significant external events or occurrences beyond that party's control provided that the parties shall first mutually endeavor in good faith to employ reasonable efforts to modify the program in a manner resolving the problems caused by such legal, regulatory, or significant external events or occurrences.

In the event that this Agreement is terminated by any party on the basis of clause (i) if the party in default is Block Services, clause (ii) or clause (iii), the non-exclusive license provided to Block Services by Beneficial Franchise shall terminate effective upon the date of termination of this

Agreement. If this Agreement is terminated on the basis of clause (i) if Block Services is not the party in default, the license provided by Beneficial Franchise to Block Services under Section 4.1 and the right to sublicense under Section 4.1 shall survive such termination.

(b) Certain Cure. For purposes of Section 6.3(a), if the default with respect to which Block Services gives notice of termination is the failure or inability of RAL Originator to make RALs or RACs as required by this Agreement, then cure shall be accomplished, and no termination of this Agreement shall result to the extent that Tax Masters arranges, subject to Block Companies' rights under the Letter Agreement, for a substitute performance by another RAL originator or RAC issuer, and such other RAL originator or RAC issuer commences, within the appropriate cure period set forth in Section 6.3(a) (45 days, or 10 days during the Tax Period), to make the RALs and issue RACs which RAL Originator was unable to do. Block Services and Tax Masters as servicer for the RAL Originator shall use their respective best efforts in attempting to arrange for such substitute performance. The provisions of this Section 6.3(b) shall not relieve Tax Masters as servicer for the RAL Originator of its obligations to (i) diligently complete cure under Section 6.3(a) so that RAL Originator can again make RALs and issue RACs notwithstanding substitute performance under this Section 6.3(b) in the interim by an other RAL Originator; and (ii) compensate Block Services for expenses and damages as described in Section 6.3(a). Also, the provisions of this Section 6.3(b) shall not be used by Tax Masters to avoid the provisions of Section 8.5 dealing with assignment of rights and obligations under this Agreement.

6.4 Effect of Termination. After any termination, the RAL and RAC accounts established by the RAL Originator will continue to be the property and responsibility of the RAL Originator which established such RAL and RAC accounts. Termination shall not affect existing obligations.

6.5 Return of Confidential Information. Upon termination of this Agreement, the parties will return to any furnishing party all confidential information received in connection with this Agreement and certify in writing to such furnishing party that such receiving party has not retained any copies of such confidential information; provided, notwithstanding any other provision herein, that any information that Tax Masters provides to the RAL Originator in

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carrying out its obligations under this Agreement that the RAL Originator is required as a regulated institution to retain shall not be subject to the return provisions herein during the period of such legally required retention.

7. CONFIDENTIALITY AND PRIVACY OF INFORMATION.

7.1 Proprietary Information. Each of the parties is informed and acknowledges that implementation and operation of the service of offering of RALs and RACs (the "RAL Program") described in this Agreement will involve the use of certain systems, computer programs and/or other data including business information or trade secrets ("Proprietary Information") that are proprietary to the respective parties. Such Proprietary Information shall be identified as "confidential" or "proprietary" by the respective parties. Each party will retain in confidence all Proprietary Information received in connection with this Agreement and limit access to or disclosure of such Proprietary Information received in connection with this Agreement solely for the purpose of operation of the RAL Program under this Agreement. To this end, the recipient will employ the same degree of care to avoid disclosure of such information that it employs with respect to its own information deemed confidential. Subject to Section 7.4, such obligation of confidentiality shall not extend to any information which is shown to have been known by the receiving party prior to disclosure to it by the other party or parties hereto or generally known to others engaged in the same trade or business as the furnishing party, or that is or shall become part of public knowledge through no act or omission by the receiving party or its directors, officers, employees, professional advisors or other representatives, or that shall have been lawfully received by the receiving party from a third party which the receiving party does not know and has no reason to believe is under any obligation of confidentiality with respect to such information.

7.2 Privacy of Information.

(a) Privacy of Customer Information. Notwithstanding anything in this Agreement to the contrary, a party receiving nonpublic personal information

(the "Receiving Party") from any party which obtained such nonpublic personal information from a customer or consumer (the "Disclosing Party"), agrees that it will not disclose such nonpublic personal information of customers and consumers of Disclosing Party to non-affiliated third parties or use such nonpublic personal information for any purpose other than satisfying Receiving Party's duties and obligations under this Agreement, unless the consumer or customer has consented to such use or it is otherwise permitted by applicable law, provided that Tax Masters shall have the right to disclose to the RAL Originator information it deems reasonably necessary to carry out its obligations under the RAL Program. Any such use or disclosure by Receiving Party of nonpublic personal information of customers and consumers of the Disclosing Party shall be in compliance with federal and state laws, rules and regulations.

(b) Obligations of Receiving Party to Safeguard Customer Information. In addition to any other obligations of Receiving Party set forth in this Agreement, Receiving Party agrees to implement and maintain safeguards for the nonpublic personal information of customers and consumers of Disclosing Party, which shall be consistent with the requirements of 16 CFR 314, as directed by the Disclosing Party, but in no event less than the standard of care Receiving Party uses to protect its own information of similar sensitivity. Receiving Party may

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permit access and usage of nonpublic personal information of customers and consumers of Disclosing Party to Receiving Party's Affiliates in order to exercise its rights and perform its obligations under this Agreement and any related agreements among the parties (including but not limited to the rights under Section 1.4), provided that Receiving Party shall require that any of its Affiliates that are permitted such access and/or usage agree not to disclose such information to any third party except as otherwise permitted by Section 7.2(a) herein. Receiving Party will allow Disclosing Party to reasonably audit Receiving Party's compliance with its obligations under this Section 7.2. All terms used in this Section shall have the same meanings, where the context permits, as set forth in 16 CFR Parts 313 and Part 314.

7.3 Conduct Prohibited. Notwithstanding anything in this Section 7 to the contrary and notwithstanding any consent from a RAL Customer, Tax Masters and Beneficial Franchise agree that they will not, and Tax Masters shall enforce the obligation of the RAL Originator under the agreement between Tax Masters and the RAL Originator that the RAL Originator and any of its Affiliates not, (a) use Block Services' name (including the H&R Block and the Block Financial Corporation names), or the names of any of Block Services' Return preparers, in any communications with RAL Customers or other Persons except in carrying out RAL Originator's, Tax Masters' and Beneficial Franchise's obligations under this Agreement and the agreement between Tax Masters and the RAL Originator; (b) target or solicit Block Services' RAL Customers for any individual retirement account or similar or alternative retirement account; or (c) use or disclose the fact that a RAL Customer was a customer of Block Services or Block Financial Corporation, without Block Services' prior written consent except as necessary to carry out RAL Originator's, Tax Masters' and Beneficial Franchise's obligations under this Agreement and the agreement between Tax Masters and the RAL Originator.

7.4 Sharing of Return and RAL Application Data. Subject to Section 7.3, Tax Masters may share any data from a RAL Customer's Return and RAL Application with any of its Affiliates and, solely for purposes of carrying out its obligations under this Agreement, to the RAL Originator; provided that it shall obtain appropriate consents for such sharing that are compliant with 26 USC Sections 7216 and regulations promulgated thereunder, and further provided that it complies with the requirements of the Gramm Leach Bliley Act and 16 CFR 313. Tax Masters, upon obtaining appropriate consents from RAL Customers, may share any data from such RAL Customers' Returns and RAL Applications with any of their Affiliates.

7.5 Survival. The obligations of the parties under this Section 7 shall survive the expiration or termination of this Agreement.

8. MISCELLANEOUS.

8.1 Offering of RALs and RACs. Block Services, through Block Offices, shall not offer directly or indirectly any RALs or RACs to any of its customers except in connection with a RAL Program offered by or through Tax Masters as

servicer for the RAL Originator and Block Services through Block Offices, or Major Franchisees or subfranchisees of Major Franchisees who are participating in the RAL Program. In the event Tax Masters offers a RAL program (either directly or through a RAL originator) to subscribers other than Block Services with a RAL or RAC fee less than those offered in Tax Masters' RAL Program with Block Services, Tax Masters shall provide RALs or RACs in conjunction with Tax Masters' RAL Program with

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Block Services at the same or lower RAL or RAC fees offered in conjunction with such other subscribers.

Block Services agrees that for each Tax Period during this Agreement, except as otherwise agreed by the parties in the Letter Agreement, RAL Originator will be the RAL originator and RAC issuer for 100% of Block Offices, other than Corporate Franchises. Block Services shall use reasonable good faith efforts to cause Tax Masters to be the facilitator of RALs and RACs for 100% of the Corporate Franchises, but Block Services cannot assure or guarantee that any such Corporate Franchise will use a particular RAL and RAC facilitator.

8.2 Audit Rights of the Parties. Each party agrees that they will each make the applicable files, books and records available to the nationally recognized firm of independent certified public accountants of the other parties as such parties may reasonably request in connection with any of the requirements to be completed or payments to be made under this Agreement. Each party shall furnish to the other parties all such information concerning transactions and services provided by it pursuant to those sections as the requesting parties may reasonably request, and permit the other parties and their authorized representatives reasonable access, during normal business hours, to audit the books and records of such party as they relate to any aspect of those sections. In addition, Tax Masters shall have the right to obtain access to such information for the RAL Originator to the extent necessary to enable the RAL Originator to comply with its obligations under applicable laws and regulations.

8.3 Other Agreements. Each party warrants that its execution of this Agreement does not constitute a violation of any agreement or relationship to which it is a party.

8.4 Use of Name; Agency. Except as otherwise set forth herein, Tax Masters, Beneficial Franchise and Block Companies agree not to use the trade names or service marks of any other party without the other party's express written consent and Tax Masters agrees to enforce the obligation of the RAL Originator under the agreement between Tax Masters and the RAL Originator that the RAL Originator not use the trade names or service marks of Block Services or its Affiliates without Block Services' express written consent. Block Services also agrees not to use the name of the RAL Originator without first obtaining Tax Masters' consent as servicer for the RAL Originator. This Agreement does not establish or create a joint venture among any of the parties to this Agreement or the employees, agents or representatives of the respective parties are not the partners, agents or representatives of each other. Tax Masters and Beneficial Franchise agree to Block Services' use during the term of this Agreement of the trademark "Because it's your money" in connection with Block Services' tax preparation and RAL Program and other products offered by Block Services from time to time and related advertising; except that with respect to such other non-tax related products of Block Services, if Tax Masters or its Affiliates are using such trademark in connection with products that are comparable to Block Services' (and not part of a joint offering with Block Services), Block Services shall obtain prior approval from Tax Masters or its Affiliates as the case may be for the use of such trademark.

8.5 Assignment. Except as set forth in Section 6.3(b), any party's rights under this Agreement may not be assigned without the prior written consent of the other parties upon thirty (30) days prior written notice, which consent shall not be unreasonably withheld; provided that it

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is acknowledged by the parties that HB has ceased its operations and shall

assign, effective as of December 31, 2002, all of its rights and obligations under the RAL Operations Agreement to Tax Masters.

8.6 Litigation. In the event of litigation among the parties with respect to this Agreement, the prevailing party shall be entitled to reasonable attorneys' fees from the losing party or parties, including such fees incurred during any such litigation on appeal.

8.7 Excusable Delays. If the performance of the obligations hereunder of any party to this Agreement is prevented, restricted or interfered with by reason of fire, or other casualty or accident, strikes or labor disputes, war or other violence; any law, order, proclamation, regulation, ordinance, demand, or requirement of any government agency; or any act or condition whatsoever beyond such party's reasonable control (provided, however, that the failure of any computer hardware, software, or communication system maintained by Tax Masters in connection with the RAL Program shall not be "excused" under this Section, to the extent such failure is not caused by or the result of any of the above-mentioned factors or conditions); such party, upon giving prompt notice to the other parties, shall be excused from such performance to the extent of such prevention, restriction or interference; and such non-performance shall not constitute a default under this Agreement, provided, however, that such party shall use reasonable efforts, including, without limitation, the best efforts referred to in Section 6.3(b) to arrange for substitute performance and to avoid or remove such causes of non-performance, and shall continue performance hereunder whenever such causes are removed.

8.8 Contingent Issuing of Checks by RAL Originator. In the event it becomes infeasible due to events or occurrences beyond the parties' control for Block Offices to issue RAL or RAC disbursement checks directly to RAL Customers, then the parties agree that Tax Masters as servicer for the RAL Originator shall issue such checks directly to RAL Customers. If any check is mailed by the RAL Originator, Tax Masters as servicer for the RAL Originator shall mail the check to the RAL Customer within the same day of RAL Originator's receipt of the RAL Customer's RAL Application provided, however, in either case, such RAL Application must be received by the RAL Originator by 9:00 a.m. Eastern Standard or Daylight Savings Time (as the case may be).

8.9 DISCLAIMERS. BLOCK COMPANIES' AND HOUSEHOLD COMPANIES' OBLIGATIONS UNDER THIS AGREEMENT ARE IN LIEU OF ALL WARRANTIES, EXPRESS OR IMPLIED, EXCEPT AS OTHERWISE PROVIDED IN SECTION 1.12 WITH RESPECT TO BLOCK SERVICES' CARE AND CUSTODY OF THE DISBURSEMENT CHECKS, NEITHER BLOCK COMPANIES NOR HOUSEHOLD COMPANIES WILL BE LIABLE FOR INCIDENTAL, SPECIAL, INDIRECT OR CONSEQUENTIAL DAMAGES, LOSS OF PROFITS OR INCOME, LOSS OF USE OR OTHER BENEFITS ARISING OUT OF OR IN CONNECTION WITH THIS AGREEMENT OR THE SERVICES PERFORMED HEREUNDER. PROVIDED, HOWEVER, WITH RESPECT TO BLOCK SERVICES' RESPONSIBILITIES UNDER SECTION 1.12, THE PARTIES AGREE THAT BLOCK SERVICES WILL NOT BE LIABLE FOR INCIDENTAL, SPECIAL, OR INDIRECT DAMAGES BUT WILL BE LIABLE FOR ANY INTEREST CHARGES. It is the responsibility of Block Services to ensure that all of its files are adequately duplicated and documented. Tax Masters will not be responsible for duplicating its files, or for the cost of

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reconstructing data stored on disc files, tapes, memories, etc., lost during the course of performance of its obligations under this Agreement.

8.10 Applicable Law. This Agreement will be governed by and interpreted in accordance with the laws of the State of Delaware.

8.11 Notices. All notices required or permitted to be given under this Agreement shall be in writing and shall be given by registered or certified mail, return receipt requested, addressed to each as follows:

If to Block Companies to:

H & R Block Services, Inc.
4400 Main Street
Kansas City, Missouri 64111
Attn: Jeffery W. Yabuki

If to any one or more of Household
Companies to:

Household Tax Masters Inc.
200 Somerset Corporate Blvd.
Bridgewater, New Jersey 08807
Attention: Patrick A. Cozza

Any party may change the address to which it desires notices to be sent by giving the other parties ten (10) days prior notices of any such change.

Any notice shall be deemed given upon its receipt by the party to whom the notice is addressed.

8.12 Other Financial Services. Block Services agrees to consult with Tax Masters regarding financial products and services created by Block Services or Tax Masters or their Affiliates that may be offered through Block Services' company-owned tax offices. In the event Block Services determines to introduce a financial product or service provided by a third party (other than a direct or indirect subsidiary of H&R Block, Inc.) through company-owned tax offices (a "Third-Party Product"), Block Services agrees to consult with Tax Masters regarding such Third-Party Product and negotiate in good faith with Tax Masters (or an Affiliate of Tax Masters) for Tax Masters (or such Affiliate or the RAL Originator designated by Tax Masters) to offer and provide such Third-Party Product through Block Services' company-owned tax offices. Notwithstanding the foregoing sentence, this Section 8.12 shall not apply to any Third-Party Product with respect to which (i) Block Services (or its Affiliates) are conducting discussions within the six (6) month period ending on the date of this Agreement or (ii) a third party approached Block Services or its Affiliates and initiated discussions concerning such Third-Party Product subject to the terms of a confidentiality agreement between Block Services (or its Affiliates) and such third party; provided that, to the extent permitted by any applicable confidentiality agreement (as determined by Block Services (or its Affiliates) in its or their sole discretion), Block Services will consult with Tax Masters (or its Affiliates) regarding such Third-Party Product.

8.13 Severability. If any provision of this Agreement, compensation to Block Services described herein, Final Credit Criteria or Final RAL and RAC Fees charged to customers of

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Block Services, shall for any reason be held to be invalid, illegal or unenforceable, such invalidity shall not otherwise affect the validity of this Agreement or any other provision hereof, and this Agreement shall be interpreted and construed as if such provision, to the extent invalid, had not been contained herein. In such event, the parties shall in good faith endeavor to redesign the RAL Program or the terms hereof in a manner consistent with the intent of this Agreement pursuant to Section 6 hereof.

8.14 Modifications to Agreement. This Agreement supersedes the RAL Operations Agreement among Block Companies and Household Companies and HB. Each party represents and warrants that there are no oral understandings between or among them that differ from the terms and conditions of this Agreement. This Agreement may be modified only by a written agreement signed by all of the parties.

8.15 References to RALs. Unless otherwise specified in this Agreement, any general reference to a RAL in this Agreement shall be meant to also refer to an Instant RAL, which is a RAL under which a credit decision is made prior to Block Services receiving positive acknowledgment of the underlying Return's acceptance for Electronic Filing and the Notification from the IRS, and a Classic RAL, which is the name sometimes used for a RAL to distinguish it from an Instant RAL when Instant RALs are offered.

8.16 Instant RALs. Tax Masters, as servicer for the RAL Originator, may offer Instant RALs to certain customers in the 2003 Tax Period. Tax Masters may, however, upon forty-eight (48) hours prior written notice to Block Services, stop offering Instant RALs at any time in its discretion during the 2003 Tax Period. Tax Masters and its Affiliates shall retain ownership of its proprietary rights, including intellectual property rights, in the Instant RAL product.

8.17 File Sharing. Tax Masters as servicer for the RAL Originator shall provide the following files to Block Services for use in the 2003 Tax Period and future Tax Periods:

(a) Guaranteed Loan Offer ("GLO") Processing File. This file is generated from the 2003 GLO file received from Experian. It is coded and incorporated into the TPS software. Block Services is prohibited from accessing and decoding such software, except in response to, and to fulfill, a consumer's

request for a RAL. Block Services shall not use this file for any other purpose, including but not limited to marketing its products.

(b) Block Services GLO Marketing File. This file is generated from the 2003 GLO file received from Experian. Block Services may only use this file to inform its customers that they qualify for a pre-approved RAL for the 2003 Tax Period. Block Services shall not use this file for any other purpose, including but not limited to marketing its products.

(c) Advance RAL Processing File. This file is generated from the 2003 GLO file received from Experian. It is coded and incorporated into the TPS software. Block Services is prohibited from accessing and decoding such software, except in response to, and to fulfill, a consumer's request for a RAL. Block Services shall not use this file for any other purpose, including but not limited to marketing its products.

(d) History Processing File. This file is generated from the experiences of the Household Companies. It consists of RAL payment history for the last four (4) years and current

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bad debt. This data is used for scoring a potential Instant RAL customer, is coded, and resides in the Instant RAL decision module incorporated into the TPS software. Block Services is prohibited from accessing and decoding such software, except in response to, and to fulfill, a consumer's request for a RAL. Block Services shall not use this file for any other purpose, including but not limited to marketing its products.

8.18 Representations and Warranties of Block Services. Block Services hereby represents, warrants and covenants that it and its subsidiaries are and shall be the owners of all Block Offices, except for offices of Corporate Franchises through the term of this Agreement. Block Services hereby further represents, warrants and covenants that it will cause its subsidiaries to perform all of the obligations of Block Services required to be performed under this Agreement. Block Services agrees to enforce the terms of any existing agreement with Corporate Franchises relating to the RAL Program.

8.19 Effective Date. The effective date of this Agreement is January 1, 2003.

8.20 Termination of HB as a Party and Assignment of HB's Responsibilities to Tax Masters; Events Prior to Amendment. HB is hereby terminated as a party to this Agreement; provided that HB shall assign, effective as of December 31, 2002, to Tax Masters all of HB's agreements, duties and obligations under the RAL Operations Agreement arising out of events occurring prior to the effective date of this Agreement, and the receivables associated with the RAL Accounts previously established by HB under the RAL Operations Agreement shall continue to be the property and responsibility of Tax Masters or an Affiliate thereof to whom such assets were assigned by HB; provided, however, that such assignment by HB to Tax Masters is subject to all of the Block Companies' rights under the Letter Agreement. Subject to HB's assignment of its rights and obligations to Tax Masters and/or any of its Affiliates pursuant to the immediately preceding sentence, the parties affirm that they are responsible for performing all of their agreements, duties and obligations under the RAL Operations Agreement arising out of events occurring prior to the effective date of this Agreement, and the provisions of the RAL Operations Agreement shall survive and continue to define the rights and obligations of the parties with respect to such prior events.

8.21 Definitions. Unless otherwise defined herein, capitalized terms shall have the meanings set forth in the Appendix of Defined Terms attached hereto.

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IN WITNESS WHEREOF, the parties hereto have caused this Amended and Restated Refund Anticipation Loan Operations Agreement to be executed by their respective officers thereunto duly authorized as of the date set forth above.

HOUSEHOLD TAX MASTERS INC.

By: /s/ Patrick A. Cozza

Name: Patrick A. Cozza
Title: President

BENEFICIAL FRANCHISE COMPANY INC.

By: /s/ Patrick A. Cozza

Name: Patrick A. Cozza
Title: Senior Vice President

H & R BLOCK SERVICES, INC.

By: /s/ Jeffery W. Yabuki

Name: Jeffery W. Yabuki
Title: President

H & R BLOCK TAX SERVICES, INC.

By: /s/ Jeffery W. Yabuki

Name: Jeffery W. Yabuki
Title: President

HRB ROYALTY, INC.

By: /s/ Rosalie A. Kenney

Name: Rosalie A. Kenney
Title: President

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And solely for purposes of Sections 8.5 and 8.20 of this Amended and Restated Refund Anticipation Loan Operations Agreement:

HOUSEHOLD BANK, F.S.B.

By: /s/ Patrick A. Cozza

Name: Patrick A. Cozza
Title: Senior Vice President

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SCHEDULE I

INITIAL CREDIT CRITERIA AND
INITIAL RAL AND INITIAL RAC FEE AND INITIAL ACCOUNT
ADMINISTRATION FEE FOR TAX PERIOD

January 1, 2003 - June 30, 2003

Initial Credit Criteria

1. For a RAL Applicant applying for a RAL, which is defined as a loan in an amount equal to the full amount of such Applicant's anticipated Federal Income Tax Refund ("Refund"), and which RAL is secured by a Refund which may include in part an Earned Income Credit ("EIC"), such RAL Applicant must qualify for approval using RAL Originator credit criteria which includes an IRS debt code indicating no debts or refund delays as well as credit criteria related to any scorecards as applicable.

2. Have a valid Federal Income Tax Return for Tax Year 2002 acceptable by the

IRS for Electronic Filing and Direct Deposit with a Federal Tax Refund greater than two-hundred (\$200) dollars and no greater than five thousand (\$5,000) dollars. The maximum RAL amount for Non-EIC applicants is five thousand (\$5,000) dollars inclusive of any fees or charges. The maximum RAL amount for EIC applicants is five thousand (\$5,000) dollars inclusive of any fees or charges. (Applicants showing a Refund greater than \$5,000 shall receive a RAL up to \$5,000 and subsequently will be issued a check for the excess amount.)

3. Be 18 years of age or older or otherwise be eligible under state law to apply for and receive a RAL.

If married filing joint, either applicant (primary or spouse) must meet the minimum requirement.

If state of residence is:

Alabama - applicant must be 19 unless married, then 18.

Nebraska - applicant must be 19 unless married, then no age restriction.

Puerto Rico - applicant must be 21 years old unless they have parental or guardian consent.

4. Comply with the Identification and Qualifying Procedures for a Refund Anticipation Loan through RAL Originator as set forth on Schedule 1.3.

5. Not previously have filed any Federal Income Tax Return for the tax year 2002, not have any tax due and/or tax liens from prior tax years, not owe any delinquent RALs, child support, alimony payments, student loans, V.A. loans or other Federally sponsored loans.

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6. Presently, not have a petition (whether voluntary or involuntary) filed or anticipate filing, under federal bankruptcy laws.

7. Not have a RAL with RAL Originator, or any other RAL originator from a prior year that has been discharged in bankruptcy.

8. Not have paid any estimated tax and/or did not have any amount of the 2001 return applied to the 2002 return.

9. Not be presently making regular payments to the IRS for prior year unpaid taxes.

10. Not have power of attorney that is presently in effect or on file with the IRS to direct the Federal Tax Refund to any third party.

11. Not be a non-resident alien.

12. Not be filing a Federal Income Tax Return for 2002 using a substitute W-2, Form 4852, or any other form of substitute wage and tax documentation, unless the source of the Form 4852 is a Military Leave and Earnings Statement.

13. Not be filing Form 8862, Earned Income Credit Eligibility for 2002, with the Federal Income Tax Return.

14. Not be filing a Federal Income Tax Return for 2002 and be currently incarcerated in a state or federal prison or have income earned while an inmate at a penal institution and are claiming the Earned Income Credit.

15. Not be filing a return if the 2002 income reported is solely from Schedule C or C-EZ (Profit & Loss from Business).

16. If Schedule C is present and EIC claimed, and return is not H & R Block prepared, a RAL application is not permitted unless the taxpayer is a statutory employee and the W-2 indicates statutory employee in Box 15.

17. Not be filing a return that contains a Schedule EIC and the modified adjusted gross income on the Earned Credit Worksheet for Form 1040 is different from the adjusted gross income reported on Form 1040.

INITIAL RAL, RAC, AND OTHER BANK PRODUCT FEES

The Initial RAL, RAC, and other bank product Fees established by the RAL Originator for the Tax Period January 1, 2003 - June 30, 2003 shall be as listed below:

2003 INITIAL BANK PRODUCT PRICING
(As of July 31, 2002)

H&R BLOCK OFFICE CHANNEL
RAL/IRAL TIERED PRICING -

Loan Amount -----	RAL Fee -----	Instant RAL Fee (RAL + \$15.00) -----
\$200 to \$500	\$ 30.00	\$ 45.00
\$501 to \$1000	\$ 40.00	\$ 55.00
\$1001 to \$1500	\$ 60.00	\$ 75.00
\$1501 to \$2000	\$ 70.00	\$ 85.00
\$2001 to \$5000	\$ 90.00	\$105.00
Maximum Loan Amount \$5000.00		
Earned Income Tax Credit Lending (If qualified capped at \$2,500.00)		
AAF	\$ 25.00	
RAC -		
Maximum RAC Amount \$5,500.00	\$25.00	
EXPRESS IRA/RAC -		
No License Fee/No Participation	\$5.00 (paid by Block Services on back-end)	
EXPRESS IRA - RAL/RAC COMBO -		
	Appropriate RAL Fee based on tier level	
BALANCE DUE -		
No License Fee/No Participation	\$0 Transaction Processing Fee for 2003 Tax Season Prime + 13.9% 90 days same as cash 120 days TBD	
ARAL -		
No License Fee/No Participation	\$60.00	

ON-LINE TAX PREPARATION (OTP) CHANNEL
ERA/RAL TIERED PRICING -

Loan Amount -----	ERA Fee (RAL) -----
\$200 to \$500	\$30.00

\$501 to \$1000	\$40.00
\$1001 to \$1500	\$60.00
\$1501 to \$2000	\$70.00
\$2001 to \$5000	\$90.00

Maximum Loan Amount \$5000.00

Earned Income Tax Credit Lending
(If qualified capped at \$2,500.00)

AAF \$25.00

EXPRESS IRA/RAC -
No license fee/No participation \$5.00 (paid by Block Services on
back-end)

EXPRESS IRA - RAL/RAC COMBO - Appropriate RAL Fee

ONLINE RAC -
Via direct deposit
Block participates at \$2.76 \$10.00

TAX CUT TAX PREPARATION SOFTWARE CHANNEL
EXPRESS IRA/RAC -

No license fee/No participation \$5.00 (paid by Block Services on
back-end)

No other bank products offered in 2003

PTS CHANNEL

No bank products offered in 2003

SCHEDULE II

FINAL CREDIT CRITERIA AND
FINAL RAL AND FINAL RAC FEE AND FINAL ACCOUNT
ADMINISTRATION FEE FOR TAX PERIOD
January 1, 2003 - June 30, 2003

Final Credit Criteria

1. For a RAL Applicant applying for a RAL, which is defined as a loan in an amount equal to the full amount of such Applicant's anticipated Federal Income Tax Refund ("Refund"), and which RAL is secured by a Refund which may include in part an Earned Income Credit ("EIC"), such RAL Applicant must qualify for approval using RAL Originator credit criteria which includes an IRS debt code indicating no debts or refund delays as well as credit criteria related to any scorecards as applicable.

2. Have a valid Federal Income Tax Return for Tax Year 2002 acceptable by the IRS for Electronic Filing and Direct Deposit with a Federal Tax Refund greater than two-hundred (\$200) dollars and no greater than five thousand (\$5,000) dollars. The maximum RAL amount for Non-EIC applicants is five thousand (\$5,000) dollars inclusive of any fees or charges. The maximum RAL amount for EIC applicants is five thousand (\$5,000) dollars inclusive of any fees or charges. (Applicants showing a Refund greater than \$5,000 shall receive a RAL up to \$5,000 and subsequently will be issued a check for the excess amount.)

3. Be 18 years of age or older or otherwise be eligible under state law to apply for and receive a RAL.

If married filing joint, either applicant (primary or spouse) must meet the minimum requirement.

If state of residence is:

Alabama - applicant must be 19 unless married, then 18.

Nebraska - applicant must be 19 unless married, then no age restriction.

Puerto Rico - applicant must be 21 years old unless they have parental or guardian consent.

4. Comply with the Identification and Qualifying Procedures for a Refund Anticipation Loan through the RAL Originator as set forth on Schedule 1.3.

5. Not previously have filed any Federal Income Tax Return for the tax year 2002, not have any tax due and/or tax liens from prior tax years, not owe any delinquent RALs, child support, alimony payments, student loans, V.A. loans or other Federally sponsored loans.

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6. Presently, not have a petition (whether voluntary or involuntary) filed or anticipate filing, under federal bankruptcy laws.

7. Not have a RAL with the RAL Originator, or any other RAL originator from a prior year that has been discharged in bankruptcy.

8. Not have paid any estimated tax and/or did not have any amount of the 2001 return applied to the 2002 return.

9. Not be presently making regular payments to the IRS for prior year unpaid taxes.

10. Not have power of attorney that is presently in effect or on file with the IRS to direct the Federal Tax Refund to any third party.

11. Not be a non-resident alien.

12. Not be filing a Federal Income Tax Return for 2002 using a substitute W-2, Form 4852, or any other form of substitute wage and tax documentation, unless the source of the Form 4852 is a Military Leave and Earnings Statement.

13. Not be filing Form 8379 (Injured Spouse Claim and Allocation) with the 2002 Federal Income Tax Return.

14. Not be filing Form 8862, Earned Income Credit Eligibility for 2002, with the Federal Income Tax Return.

15. Not be filing a Federal Income Tax Return for 2002 and be currently incarcerated in a state or federal prison or have income earned while an inmate at a penal institution and are claiming the Earned Income Credit.

16. Not be filing a return if the 2002 income reported is solely from Schedule C or C-EZ (Profit & Loss from Business).

17. If Schedule C is present and EIC claimed and return is not H & R Block prepared, a RAL application is not permitted unless the taxpayer is a statutory employee and the W-2 indicates statutory employee in Box 15.

18. Not be filing Form 1310 (Statement of Person Claiming Refund Due Deceased Taxpayer) with the 2002 Federal Income Tax Return or filing a Federal Income Tax Return 1040 on behalf of a deceased taxpayer.

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FINAL RAL, RAC, AND OTHER BANK PRODUCT FEES

The Final RAL, RAC, and other bank product Fees established by the RAL Originator for the Tax Period January 1, 2003 - June 30, 2003 are listed below:

H&R BLOCK OFFICE CHANNEL

RAL/IRAL TIERED PRICING -

2003 RAL

Refund/RAL Tier	RAL COST		
	Refund Account Fee	Finance Charge	RAL Total
	-----	-----	-----
\$200 - \$500	\$24.95	\$ 5.00	\$29.95
\$501 - \$1,000	\$24.95	\$15.00	\$39.95
\$1,001 - \$1,500	\$24.95	\$35.00	\$59.95
\$1,501 - \$2,000	\$24.95	\$45.00	\$69.95
\$2,0001 - \$5,000	\$24.95	\$65.00	\$89.95

Maximum Loan Amount of \$5,000

Earned Income Tax Credit Lending to \$5,000 if qualified (some EIC customers will be capped at \$2,500 as in tax season 2002)

RAC Fee	\$24.95	--	--
Denied RAL (AAF)	\$24.95	--	--

2003 Full IRAL

Refund Tier	Full IRAL Cost			
	Refund Acct. Fee	IRAL Fee	Finance Charge	Total
	-----	-----	-----	-----
\$200 - \$500	\$ 24.95	\$ 15.00	\$ 5.00	\$ 44.95
\$501 - \$1,000	\$ 24.95	\$ 15.00	\$ 15.00	\$ 54.95
\$1,001 - \$1,500	\$ 24.95	\$ 15.00	\$ 35.00	\$ 74.95
\$1,501 - \$2,000	\$ 24.95	\$ 15.00	\$ 45.00	\$ 84.95
\$2,001 - \$5,000	\$ 24.95	\$ 15.00	\$ 65.00	\$104.95

2003 Partial \$750 IRAL with Subsequent RAL

Refund Tier	Refund Acct. Fee	Partial \$750 IRAL Cost (Day 1)		Partial IRAL Total	RAL Cost (Day 2) Finance Charge	IRAL + RAL Total
		IRAL Fee	Finance Charge			
	-----	-----	-----	-----	-----	-----
\$200 - \$500*	\$ 24.95	\$ 15.00	\$ 5.00	\$ 44.95	--	\$ 44.95
\$501 - \$1,000	\$ 24.95	\$ 15.00	\$ 5.00	\$ 44.95	\$ 10.00	\$ 54.95
\$1,001 - \$1,500	\$ 24.95	\$ 15.00	\$ 5.00	\$ 44.95	\$ 30.00	\$ 74.95
\$1,501 - \$2,000	\$ 24.95	\$ 15.00	\$ 5.00	\$ 44.95	\$ 40.00	\$ 84.95

\$2,001 - \$5,000 \$ 24.95 \$ 15.00 \$ 5.00 \$ 44.95 \$ 60.00 \$104.95

* This is a Full IRAL since partial IRALs are for \$750.00

2003 Partial \$750 IRAL with Subsequent Denied RAL

Refund Tier	Partial \$750 IRAL Cost (Day 1)			Partial IRAL Total	Denied RAL Cost	IRAL + Denied RAL Total
	Refund Acct. Fee	IRAL Fee	Finance Charge		Finance Charge	
\$200 - \$500*	\$ 24.95	\$ 15.00	\$ 5.00	\$ 44.95	--	\$ 44.95
\$501 - \$1,000	\$ 24.95	\$ 15.00	\$ 5.00	\$ 44.95	\$ 0	\$ 44.95
\$1,001 - \$1,500	\$ 24.95	\$ 15.00	\$ 5.00	\$ 44.95	\$ 0	\$ 44.95
\$1,501 - \$2,000	\$ 24.95	\$ 15.00	\$ 5.00	\$ 44.95	\$ 0	\$ 44.95
\$2,001 - \$5,000	\$ 24.95	\$ 15.00	\$ 5.00	\$ 44.95	\$ 0	\$ 44.95

* This is a Full IRAL since partial IRALs are for \$750.00

RAC -
Maximum RAC Amount \$9,999.99 \$24.95
(Maximum RAC first check amount of \$5,500)

EXPRESS IRA/RAC -
No License Fee/No Participation \$5.00 (paid by Block Services on
back-end)

EXPRESS IRA-RAL/RAC - COMBO - Appropriate RAL Fee based on tier
level

BALANCE DUE -
No License Fee/No Participation \$0 Transaction Processing Fee for
2003 Tax Season
Prime + 13.9%
90 days same-as-cash
120 days same-as-cash for 2002 tax
year
extension filers only

Discount RAL Tests for 2003 (2002 TY) - Pricing test as follows:

Test Markets and Client DRAL fees:

Minneapolis - St. Paul, MN	-	\$39.95
Columbia, SC	-	\$39.95
Charleston, SC	-	\$39.95
Greenville, NC	-	\$39.95

Youngstown, OH - fee as follows to DRAL clients:

Refund Tier	Total DRAL Cost
-----	-----

\$200 - \$500	\$29.95
\$501 - \$1,000	\$39.95
\$1,001 - \$5,000	\$49.95

IRALs in all markets will be charged an additional \$15.00.

Other:

- A RAL constitutes a customer. A partial IRAL followed by a classic RAL for the balance will not be considered two RALs.

ON-LINE TAX PREPARATION (OTP) CHANNEL

ERA/RAL PRICING

2003 RAL

Refund/RAL Tier	Refund Account Fee	RAL Cost Finance Charge	RAL TOTAL
	-----	-----	-----
\$200 - \$500	\$10.00	\$19.95	\$29.95
\$501 - \$1,000	\$10.00	\$29.95	\$39.95
\$1,001 - \$1,500	\$10.00	\$49.95	\$59.95
\$1,501 - \$2,000	\$10.00	\$59.95	\$69.95
\$2,001 - \$5,000	\$10.00	\$79.95	\$89.95

Maximum Loan Amount of \$5,000

Earned Income Tax Credit Lending to \$5,000 if qualified (some EIC customers will be capped at \$2,500 as in tax season 2002)

Denied RAL (AAF) (Block license fee of \$2.76)	\$10.00	--	--
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EXPRESS IRA/RAC -
No license fee/No participation \$5.00 (paid by Block Services on back-end)

EXPRESS IRA - RAL/RAC COMBO - Appropriate RAL fee

ON LINE RAC -
Via direct deposit \$10.00
Block license fee of \$2.76

TAX CUT TAX PREPARATION SOFTWARE CHANNEL

EXPRESS IRA/RAC -
No license fee/No participation \$5.00 (paid by Block Services on back-end)

No other bank products offered in 2003

PTS CHANNEL

No bank products offered in 2003

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IDENTIFICATION AND QUALIFYING PROCEDURES FOR A
REFUND ANTICIPATION LOAN
THROUGH THE RAL ORIGINATOR

A. NEW CUSTOMER. (An applicant who has not received a RAL Originator Pre-approved Loan Offer.)

Applicant must have two forms of valid identification, one must be a picture and at least one must be from Group A.

B. PRE-APPROVED CUSTOMERS

One acceptable form of identification must be obtained. If Resident Alien ID is presented, proof of qualifying child's residence for EIC is not required.

GROUP A

IRS Mailing label
(within last 10 years)

IRS Telefile Tax Record

*Military ID

*City/State/County Issued ID

Driver's License

*Employee ID

*Food Stamp ID

*Indian Tribal Card

Major Credit Card (Visa, MC, Amex,
Discover, Optima)

**Resident Alien ID

*State Welfare ID

*U.S. Passport

Consular Card

GROUP B

Copy of Form 8453 or E-File Authentication
Authorization (within last 10 years) signed by
Electronic Return Originator

Copy of Prior Year Return
(within last 10 years) including 1040 PC.

Prior Client on File

Check Cashing ID

Current Pay Stub

Department Store/Gas Credit Card

Motor Vehicle Registration

*School ID

Social Security Card

Union Membership ID

Voter Registration Card

IRS ITIN or ATIN Letter

*Must be a picture ID.

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Only one ID issued in the current year is acceptable and IDs marked as duplicate are not allowed.

**Resident alien taxpayers claiming EIC must provide proof of qualifying child's minimum six month residence in the USA. Such proof, in order of preference, must be a school registration or ID card for the child, a report card, a school health or attendance record, doctor bills for the child, a utility bill in the parent's name, the birth certificate of the child showing birth in the USA or other document establishing residence of the child in the USA.

PHONE CONTACT

If the telephone number for the primary taxpayer's residence is not available, a telephone number where the primary taxpayer can be reached is required.

A work telephone number is required for each taxpayer that is employed.

EARNED INCOME CREDIT

Schedule EIC must meet all IRS specifications and pass all IRS reject criteria.

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APPENDIX OF
DEFINED TERMS

"ACH" means the Automated Clearing House System commonly used for electronic payment transactions.

"AFFILIATE" of any Person means any other Person controlling, controlled by or under common control with such Person. RAL Originator shall not be deemed an Affiliate of Tax Masters.

"AGREEMENT" means this Amended and Restated Refund Anticipation Loan Operations Agreement and all amendments hereof and supplements hereto.

"APPLICANT" means a Person who has filed a RAL Application during the current Tax Period.

"BENEFICIAL FRANCHISE" means Beneficial Franchise Company Inc., a Delaware corporation.

"BENEFICIAL FRANCHISE INDEMNIFIED PARTIES" shall have the meaning set forth in Section 4.3 of this Agreement.

"BLOCK COMPANIES" means, collectively, Block Services, Block Tax Services and Royalty.

"BLOCK FRANCHISE" means an office owned by a franchisee of Block Services or its subsidiaries that operates under the "H&R Block" name that is open to the public for the preparation of Returns.

"BLOCK INDEMNIFIED PARTIES" shall have the meaning set forth in Section 1.14 of this Agreement.

"BLOCK INDEMNIFYING PARTIES" shall have the meaning set forth in Section 1.14 of this Agreement.

"BLOCK LICENSED MARKS" shall have the meaning set forth in Section 5.2 of this Agreement.

"BLOCK OFFICE" means (i) an office owned by Block Services or its subsidiaries that operates under the "H&R Block" name and is open to the public for the preparation of Returns and (ii) a Corporate Franchise.

"BLOCK RAL PROCESSOR" shall have the meaning set forth in Section 4.1 of this Agreement.

"BLOCK SERVICES" means H & R Block Services, Inc., a Missouri corporation, and its subsidiaries.

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"BLOCK TAX SERVICES" means H & R Block Tax Services, Inc., a Missouri corporation.

"BUSINESS DAY" means any day other than a Saturday, Sunday or a day on which banking institutions are authorized or obligated by law or executive order to be closed.

"CLASSIC RAL" shall have the meaning set forth in Section 8.15 of this Agreement.

"CORPORATE FRANCHISE" means a Person authorized by Block Services (or an Affiliate of Block Services) pursuant to a corporate franchise agreement to operate a Block Franchise. "Corporate Franchise" does not include a Person authorized by a Major Franchise Agreement with Block Services (or an Affiliate of Block Services) to operate a Block Franchise and subfranchise others to

operate a Block Franchise within a specified territory, or a subfranchisee of a Major Franchisee.

"DIRECT DEPOSIT" means the deposit of a Taxpayer's refund by the IRS directly into a bank account designated by a Taxpayer on his or her Return.

"DISCLOSING PARTY" shall have the meaning set forth in Section 7.2(a) of this Agreement.

"ELECTRONIC FILING" means the filing of a Return with the IRS, or the applicable state taxing authority, by Block Services via its Electronic Filing Software.

"ELECTRONIC FILING SOFTWARE" means the proprietary software owned by Block Services, which is used to electronically file Returns with the IRS.

"ELECTRONIC DATA PROCESSING GUIDELINES" means the guidelines established by the parties hereto related to the process of filing Returns.

"ELECTRONIC DATA PROCESSING SYSTEMS" means those electronic systems used to either electronically file Returns with the IRS or to facilitate the origination of RALs or the issuance of RACs.

"EXPENSE REIMBURSEMENT LETTER" means the letter agreement dated November 5, 2002, by and among Block Companies and Household Companies.

"FIRST OPERATIONS AMENDMENT" means the First Amendment to the Refund Anticipation Loan Operations Agreement as of January 1, 2000, by and among Block Tax Services, Tax Masters, HB, as successor in interest to BNB, and Beneficial Franchise.

"FINAL CREDIT CRITERIA" shall have the meaning set forth in Section 6.2(b) of this Agreement.

"FINAL RAL AND RAC FEES" shall have the meaning set forth in Section 6.2(a) of this Agreement.

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"GOVERNMENTAL ENTITY" means any federal, state, municipal, foreign or other governmental department, authority, commission, board, court, administrative agency bureau, body or instrumentality.

"GLO" shall have the meaning set forth in the heading of Section 8.17(a) of this Agreement

"HB" means Household Bank, f.s.b., a federal savings bank.

"HOUSEHOLD COMPANIES" means, collectively, Tax Masters and Beneficial Franchise.

"ICB" has the meaning set forth in Recital G.

"INFORMATION" shall have the meaning set forth in Section 1.10 of this Agreement.

"INITIAL CREDIT CRITERIA" shall have the meaning set forth in Section 6.2(b) of this Agreement.

"INITIAL RAL AND RAC FEES" shall have the meaning set forth in Section 6.2(a) of this Agreement.

"INSTANT RAL APPLICATION" means the application completed by a RAL Applicant to obtain an Instant RAL from the RAL Originator that must contain, among those other things as the RAL Originator shall reasonably require, a certification signed by the RAL Applicant that he or she: (a) has not previously filed any Return for the applicable Tax Year, does not have any previous tax liabilities, delinquent student loans, or any other delinquent federally guaranteed or sponsored loans, or delinquent child support payments; (b) has not filed a petition (whether voluntary or involuntary) under any federal or state bankruptcy or insolvency laws; and (c) has not filed any powers of attorney with the IRS or any state taxing authority and has no power of attorney presently in effect to direct any tax return to any third party.

"INSTANT RAL" means a RAL of which a credit decision is made prior to Block Services receiving both (i) positive acknowledgement of the underlying Tax Return's acceptance for Electronic Filing and (ii) the Notification from the IRS.

"IRS" shall have the meaning set forth in Section 1.1 of this Agreement.

"LETTER AGREEMENT" means the letter agreement dated November 11, 2002, by and among Block Companies and Household Companies.

"LICENSE FEES" means the fees paid to Block Services by Tax Masters pursuant to the terms of Section 5.4 of this Agreement.

"MAJOR FRANCHISE AGREEMENT" means an agreement between a Major Franchisee and Block Services (or an Affiliate of Block Services) authorizing the Major Franchisee to

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operate a Block Franchise and to subfranchise others to operate a Block Franchise within a specified territory.

"MAJOR FRANCHISEE" means a Person authorized by a Major Franchise Agreement with Block Services (or an Affiliate of Block Services) to operate a Block Franchise and to subfranchise others to operate a Block Franchise within a specified territory.

"NOTIFICATION" shall have the meaning set forth in Section 1.10 of this Agreement.

"ORIGINAL RAL OPERATIONS AGREEMENT" means the Refund Anticipation Loan Operations Agreement, effective July 19, 1996, by and among Block Companies, Beneficial Tax Masters, BNB and Beneficial Franchise.

"PATENT RIGHTS" shall have the meaning set forth in Section 4.1 of this Agreement.

"PERSON" means any legal person, including any individual, corporation, partnership, joint venture, association, joint-stock company, trust, unincorporated organizations, Governmental Entity or other entity of similar nature.

"PROPRIETARY INFORMATION" shall have the meaning set forth in Section 7.1 of this Agreement.

"RAC" means a refund anticipation check issued by the RAL Originator and delivered to a Taxpayer pursuant to the Refund Anticipation Check Service.

"RAL" or "REFUND ANTICIPATION LOAN" means a loan to a Taxpayer secured by such Taxpayer's federal income tax refund.

"RAL ACCOUNT" shall mean an account established by the RAL Originator for each RAL Customer.

"RAL APPLICATION" shall have the meaning set forth in Section 1.4 of this Agreement.

"RAL CUSTOMERS" shall mean individuals or entities that apply for RALs or RACs under the program through Block Services (or its subsidiaries), Corporate Franchises, and Major Franchisees and subfranchisees of Major Franchisees that have elected to participate in the RAL Program.

"RAL OPERATIONS AGREEMENT" shall have the meaning set forth in Recital F.

"RAL ORIGINATOR" means the insured depository institution engaged by Tax Masters to serve as originator under the RAL Program.

"RAL PROGRAM" has the meaning set forth in Section 7.1 of this Agreement.

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"RECEIVING PARTY" shall have the meaning set forth in Section 7.2 of this Agreement.

"REFUND ANTICIPATION CHECK SERVICE" shall mean a service pursuant to which a check in the amount of a Taxpayer's federal income tax refund, less the sum of (a) fees charged for the making of the check, (b) tax preparation and electronic filing fees and (c) other properly withheld amounts, is delivered to a taxpayer on account of a direct deposit refund (other than in connection with a RAL made in advance of receipt of the related refund). "Refund Anticipation Check Service" includes the delivery of a direct deposit refund check to a Taxpayer in connection with such Taxpayer's denied RAL Application.

"RETURNS" shall have the meaning set forth in Section 1.1 of this Agreement.

"ROYALTY" means HRB Royalty, Inc., a Delaware corporation.

"SALE AND SERVICING AGREEMENT" has the meaning set forth in Recital H of this Agreement.

"SECOND OPERATIONS AMENDMENT" means the Second Amendment to the Refund Anticipation Loan Operations Agreement dated as of January 1, 2001, by and among Block Tax Services, Tax Masters, HB and Beneficial Franchise.

"SUBSTITUTION" shall have the meaning set forth in Recital J of this Agreement.

"SURVIVAL PROVISIONS" shall have the meaning set forth in Section 4.4 of this Agreement.

"TAX MASTERS" means Household Tax Masters Inc., a Delaware corporation.

"TAX MASTERS INDEMNIFIED PARTIES" shall have the meaning set forth in Section 2.4 of this Agreement.

"TAX PERIOD" means January 1 through June 30 of a year in which individuals typically pay income taxes for income earned in the Tax Year.

"TAX YEAR" means the period beginning on January 1 of the year immediately prior to the current Tax Period and ending on December 31 of the year immediately prior to the current Tax Period.

"TAXPAYER" means a Block Services customer for any of its services. It refers to both to individual taxpayers filing individual Tax Returns and to joint taxpayers filing joint Tax Returns.

"TERM" shall have the meaning set forth in Section 6.1 of this Agreement.

"THIRD OPERATIONS AMENDMENT" shall have the meaning set forth in Recital F of this Agreement.

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AMENDED AND RESTATED
REFUND ANTICIPATION LOAN
PARTICIPATION AGREEMENT

THIS AMENDED AND RESTATED REFUND ANTICIPATION LOAN PARTICIPATION AGREEMENT (this "Agreement"), dated as of January 6, 2003, is made by and among BLOCK FINANCIAL CORPORATION, a Delaware corporation ("BFC"), HOUSEHOLD TAX MASTERS INC., a Delaware corporation ("Tax Masters"), and solely for purposes of Sections 7.9 and 7.15 herein, HOUSEHOLD BANK, f.s.b., a federal savings bank ("HB").

RECITALS

A. BFC, Beneficial National Bank, a national banking association ("BNB") and Beneficial Tax Masters Inc., a Delaware corporation ("Beneficial Tax Masters"), entered into a Refund Anticipation Loan Participation Agreement dated as of July 19, 1996 (the "Original Participation Agreement"), wherein BFC agreed to purchase from BNB and Beneficial Tax Masters, and BNB and Beneficial Tax Masters agreed to sell to BFC, a participation interest in refund anticipation loans made by BNB to customers of both H&R Block Tax Services, Inc., a Delaware corporation ("Block Tax Services"), and its affiliates and certain franchisees of HRB Royalty, Inc., a Delaware corporation ("Royalty") and their affiliates.

B. BFC, BNB and Beneficial Tax Masters, entered into an amendment to the Original Participation Agreement, dated as January, 1998 (the "Initial Participation Amendment").

C. BFC, HB, as successor in interest to BNB, and Tax Masters (f/k/a Beneficial Tax Masters), entered into a First Amendment to the Refund Anticipation Loan Participation Agreement, dated as of January 1, 2000 (the "First Participation Amendment"), wherein certain terms, conditions and obligations provided in the Original Participation Agreement, as amended by the Initial Participation Amendment, were modified, including, among others, the substitution of HB for BNB as the originating bank, and the change in name of Beneficial Tax Masters to Tax Masters.

D. BFC, Tax Masters and HB have entered into a Second Amendment to the Refund Anticipation Loan Participation Agreement, dated as of January 1, 2002 (the "Second Participation Amendment," and together with the Original Participation Agreement, the Initial Participation Amendment, and the First Participation Amendment, the "RAL Participation Agreement").

E. HB has ceased its operations and in connection therewith, Tax Masters has engaged Imperial Capital Bank ("ICB") to perform the origination function for RALs and issuing function for RACs.

F. Tax Masters and ICB entered into a Sale and Servicing Agreement for RALs and RACs, dated as of October 30, 2002, by and between Tax Masters and ICB, which agreement such parties have amended to reflect the terms set forth in an Amended and Restated Sale and Servicing Agreement for RALs and RACs (as so amended and restated, the "Sale and Servicing Agreement"), which Sale and Servicing Agreement has been delivered to Block Services as representing the basic agreement between Tax Masters and ICB regarding the RAL Program pursuant to which Tax Masters will be servicing the loans originated by ICB under the RAL Program.

G. H&R Block Services, Inc., a Missouri corporation ("Block Services"), on behalf of itself and its subsidiaries, Block Tax Services, and Royalty (Block Services, Block Tax Services and Royalty are collectively referred to herein as "Block Companies"), Tax Masters, Beneficial Franchise Company, Inc., a Delaware corporation ("Beneficial Franchise") (Tax Masters and Beneficial Franchise are collectively referred to herein as "Household Companies"), and for certain limited purposes, HB, have entered into an Amended and Restated Refund Anticipation Loan Operations Agreement, dated as of January 6, 2003, (as amended and restated, the "RAL Operations Agreement").

H. Block Companies, BFC, HB and Household Companies have entered into a letter agreement, dated November 5, 2002 (the "Expense Reimbursement Letter"), regarding reimbursement of Block Companies' and BFC's expenses in connection with Household Companies' replacement of RAL Originator.

I. Block Services, Royalty, BFC, HB and Household Companies have entered into a letter agreement, dated November 11, 2002 (the "Letter Agreement"), pursuant to which Block Companies have consented to the substitution ("Substitution") of ICB for HB as the RAL Originator under the RAL Operations Agreement subject to certain conditions, including the condition that Block Companies and Household Companies use their best efforts to reach agreement no later than January 20, 2003 as to those changes to the RAL Operations Agreement and related agreements required to effectuate the Substitution and those changes to such agreements that are directly related to, and reasonably required to fairly take account of, the Substitution.

J. The parties desire to amend and restate the RAL Participation Agreement to reflect the termination of HB as a party to this Agreement in connection with the termination of HB as originator of RALs and issuer of RACs, and to make certain other changes to the RAL Participation Agreement as hereinafter set forth relating to the purchase by BFC of participation interests in RALs made by the RAL Originator, and RACs issued by the RAL Originator to certain customers of Block Services, Corporate Franchises, Major Franchisees, subfranchisees of a Major Franchisee, or any Affiliate of any of the foregoing.

AGREEMENT

NOW, THEREFORE, for and in consideration of the premises and of the agreements of the parties hereto and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, BFC, Tax Masters and, solely for purposes of Sections 7.9 and 7.15 herein, HB hereby covenant and agree that the RAL Participation Agreement is hereby amended

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and restated in its entirety with respect to Participation Interests purchased by BFC and certain other acts and events that occur from and after the effective date hereof by deleting the provisions of Sections 1.1 through 7.13 as the same now appear and by substituting therefor the following Sections 1.1 through 7.17:

ARTICLE I DEFINITIONS

Section 1.1. Definitions. As used in this Agreement, the following terms shall have the meaning set forth below:

"Accrual Period" shall have the meaning set forth in Section 2.4(b).

"Adjustment Date" shall have the meaning set forth in Section 2.4(c).

"Affiliate" of any Person shall mean any other Person controlling, controlled by or under common control with such Person.

"Applicable Percentage" shall mean the percentage set forth for a particular Tax Period in Section 2.5.

"Applicable Tax Period" shall mean any of the ten consecutive Tax Periods commencing with and including the Tax Period beginning January 1, 1997 and ending with and including the Tax Period beginning January 1, 2006.

"Average Refund Balance" shall have the meaning set forth in Section 2.4(b).

"BFC" shall mean Block Financial Corporation, a Delaware corporation.

"Base Purchase Price" shall have the meaning set forth in Section 2.3(a).

"Block Franchise" shall mean an office owned by a franchisee of Block Services or its subsidiaries that operates under the "H&R Block" name that is open to the public for the preparation of tax returns.

"Block Office" shall mean (i) an office owned by Block Services or its subsidiaries that operates under the "H&R Block" name and is open to the public for the preparation of tax returns and (ii) a Corporate Franchise.

"Block Services" shall mean H&R Block Services, Inc., a Missouri corporation.

"Block Tax Services" shall mean H&R Block Tax Services, Inc., a Missouri corporation.

"Budget Period" shall mean, with respect to any Tax Period, the period from January 1 before the commencement of such Tax Period to and including the following December 31.

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"Business Day" shall mean any day other than a Saturday, a Sunday or a day on which banking institutions in Bridgewater, New Jersey are authorized or obligated by law or executive order to be closed.

"CPI" shall mean the index known as United States Department of Labor, U.S. Bureau of Labor Statistics, Consumer Price Index, United States City Average, All Items (1982-84=100), or if discontinued, the successor index that most closely approximates the foregoing index.

"Claim" shall have the meaning set forth in Section 6.2.

"Closing Date" shall mean with respect to a Participation Interest, the date on which such Participation Interest is sold to BFC pursuant to this Agreement.

"Collections" shall mean (i) all finally collected funds received by Tax Masters as servicer for the RAL Originator and applied to Participated Pool RALs, whether such finally collected funds arise from receipt of cash, checks, wire transfers, ATM transfers, exercise of rights of offset or other form of payment, (ii) promissory notes and/or other evidence of indebtedness accepted by Tax Masters as servicer for the RAL Originator from or on behalf of Obligor in payment of Participated Pool RALs (in which case such Collections shall be deemed to be received by the RAL Originator for purposes of this Agreement on the Business Day on which such promissory note or evidence of indebtedness was received by the RAL Originator) and (iii) all fees charged by the RAL Originator to customers of Block Offices for issuing Pool RACs (in which case such Collections shall be deemed to be received by the RAL Originator for purposes of this Agreement on the Business Day on which such RAC is delivered to the customer).

"Corporate Pool RAL" shall have the meaning given such term in the definition of "Pool RAL."

"Corporate Franchise" shall mean a Person authorized directly by Block Services (or an Affiliate of Block Services) pursuant to a corporate franchise agreement to operate a Block Office. "Corporate Franchise" does not include a Person authorized by a major franchise agreement between a Major Franchisee and Block Services, or an Affiliate of Block Services, to operate a Block Franchise and to subfranchise others to operate a Block Franchise within a specified territory, or a subfranchisee of a Major Franchisee.

"Defaulted Pool RAL" shall mean each Participated Pool RAL which, in accordance with the RAL Guidelines and Tax Masters' customary and usual servicing procedures for RALs, the RAL Originator has charged off as uncollectible; provided, however, that no Pool RAL originated during any Tax Period shall be classified as a Defaulted Pool RAL prior to January 1 of the following year.

"Eligible RAL" shall mean each Pool RAL:

(a) that was created by the RAL Originator, and is in compliance in all material respects, with the RAL Operations Agreement (or a Major Franchisee RAL

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Agreement, as the case may be) and the federal Equal Credit Opportunity Act, 15 U.S.C. Sections 1691 et seq.;

(b) (i) as to which any blank preprinted form of disclosure statement supplied by Tax Masters on behalf of the RAL Originator to the tax preparation office at which such Pool RAL was originated for use in connection with the origination of such Pool RAL complied, as to form (subject to proper completion), with the requirements of the federal Truth-in-Lending Act, 15 U.S.C. Sections 1601 et seq. ("TILA") (it being understood that the foregoing shall not be deemed a warranty by Tax Masters that such form has been properly completed) and (ii) that was created in compliance with the other requirements of TILA; and

(c) as to which, at the time of the sale of the Participation Interest in such Pool RAL to BFC, Tax Masters had good and marketable title thereto free and clear of all Liens arising under or through Tax Masters or any of its Affiliates.

"ERA Operations Agreement" shall mean the ERA Operations Agreement to be entered into between BFC, Royalty, Tax Masters and Beneficial Franchise effective January 1, 2003.

"Excluded RAL" shall have the meaning set forth in Section 5.2.

"Governmental Authority" shall mean the United States of America, any state or other political subdivision thereof and any entity exercising executive, legislative judicial, regulatory or administrative functions pertaining to government.

"HB" shall mean Household Bank, f.s.b., a federal savings bank.

"ICB" shall mean Imperial Capital Bank, a California state chartered commercial bank.

"Ineligible RAL" shall have the meaning set forth in Section 4.4(c).

"Initial Periodic Servicing Fee Percentage" shall mean the Periodic Servicing Fee Percentage initially determined for a particular Budget Period pursuant to Section 2.4(a) (iii).

"Initial Purchase Price" shall mean the initial purchase price for a Participation Interest to be paid by BFC to Tax Masters as calculated pursuant to Section 2.3.

"License Fees" shall mean the license fees paid or payable to Block Services, a Corporate Franchise, a Major Franchisee or a subfranchisee of a Major Franchisee as a result of the making of a Pool RAL or a Pool RAC, which are paid or payable contemporaneously with or shortly after the making of such Pool RAL or Pool RAC.

"License Fee Adjustment" shall have the meaning set forth in Section 2.3(b).

"Lien" shall mean any pledge, hypothecation, assignment, encumbrance, security interest, lien (statutory or other) or other security agreement of any kind or nature whatsoever,

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including (without limitation) any conditional sale or other title retention agreement having substantially the same economic effect as any of the foregoing.

"Major Franchisee" shall mean the Person authorized by a major franchise agreement with Block Services, or with an Affiliate of Block Services, to operate a Block Office and to subfranchise others to operate a Block Office within a specified territory.

"Major Franchisee Pool RAL" shall have the meaning given such term in the definition of "Pool RAL."

"Major Franchisee RAL Agreement" shall mean an agreement from time to time between Tax Masters and/or any one or more Affiliates of Tax Masters and a Major Franchisee pursuant to which RALs are made to customers of Block Offices of such Major Franchisee or its subfranchisees, as the same may be amended, modified or supplemented from time to time.

"Notifying Party" shall have the meaning set forth in Section 5.2.

"Obligor" shall mean, with respect to any RAL, the Person or Persons obligated to make payments to the RAL Originator, or an Affiliate of the RAL Originator, with respect to such RAL.

"Originator Party" shall mean any Person or entity through whom Pool RALs or Pool RACs are made or serviced, and any other Person or entity that prepares or arranges for the preparation of a tax return for a Pool RAL or Pool RAC customer, or that files, makes or transmits or assists or arranges for the filing, making or transmission of any such tax return, refund request or Pool RAL or Pool RAC request, or that acts as a network or service bureau in connection with any of the foregoing, or that owns, distributes, licenses or otherwise has an interest in any software or other intellectual property used in connection with any of the foregoing or in any trademark, service mark or brand name under which Pool RALs or Pool RACs are promoted.

"Participated Pool RAL" shall mean any Pool RAL in which a Participation Interest has been sold to BFC pursuant to Section 2.1 and has not been reassigned to Tax Masters or repurchased by Tax Masters pursuant to this Agreement.

"Participation Interest" shall have the meaning set forth in Section 2.1.

"Periodic Servicing Compensation" for a Budget Period shall be equal to (i) the sum, for all Participated Pool RALs made during the corresponding Tax Period, of the Servicing Adjustments paid by BFC for the Participation Interests corresponding to such Participated Pool RALs, plus (ii) any amount paid by BFC to Tax Masters during such Budget Period pursuant to Section 2.4(c)(i), minus (iii) any amount paid by Tax Masters to BFC during such Budget Period pursuant to Section 2.4(c)(i).

"Periodic Servicing Fee Percentage" shall mean the Required Servicing Compensation for a Tax Period, divided by the aggregate Principal Amount of Participated Pool RALs made in such Tax Period, as determined initially pursuant to Section 2.4(a) and adjusted from time to time pursuant to Section 2.4(b).

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"Person" shall mean any legal person, including any individual, corporation, partnership, joint venture, association, joint-stock company, trust, unincorporated organization, governmental entity or other entity of similar nature.

"Pool RAC" shall mean any RAC issued by the RAL Originator through a Block Office owned by Block Services, a Corporate Franchise, a Major Franchisee, a subfranchisee of a Major Franchisee, or any Affiliate of any of the foregoing.

"Pool RAL" shall mean (a) any RAL made by the RAL Originator through a Block Office owned by Block Services, a Corporate Franchise or either of their Affiliates, pursuant to or under color of (i) the RAL Operations Agreement or (ii) a referral to the RAL Originator by Block Services, such Corporate Franchise or such Affiliates pursuant to a contractual electronic filing arrangement with any other Person, (b) any electronic refund advance ("ERA") made by the RAL Originator originated through On-Line Tax Preparation ("OTP") software pursuant to the ERA Operations Agreement (a RAL or ERA described in subclause (a) or (b) may hereinafter be referred to as a "Corporate Pool RAL") and (c) any RAL made during any Tax Period by a Major Franchisee or a subfranchisee of a Major Franchisee, pursuant to or under color of (i) a Major Franchisee RAL Agreement or (ii) a referral to the RAL Originator by a Major Franchisee, or a subfranchisee or such Major Franchisee, of an Obligor whose federal income tax return was filed electronically by such Major Franchisee, or subfranchisee of such Major Franchisee, pursuant to a contractual electronic filing arrangement between such Major Franchisee or subfranchisee and any other Person (a RAL described in this subclause (c) may hereinafter be referred to as a "Major Franchisee Pool RAL"). Notwithstanding the foregoing, "Pool RAL", "Corporate Pool RAL", and "Major Franchisee Pool RAL", shall not include any RAL for which no RAL fee is charged to a customer (a "No Fee RAL"), provided that any RAL offered in connection with the parties' "CADE" initiative test shall not be deemed a No Fee RAL.

"Principal Amount" of a RAL, shall mean:

(a) the aggregate amount paid or payable by the RAL Originator to or for the account of an Obligor in connection with a RAL, and shall in any event include (i) the amount of any check properly issued or authorized to be issued by the RAL Originator to the order of any such Obligor, and (ii) any amounts paid or payable by the RAL Originator for the account of Obligor to any Originator Party, the Internal Revenue Service or any other Person (whether or not the RAL Originator has a right, contingent or otherwise, to withhold or retain any portion of such amount). The "Principal Amount" of a RAL shall not include any financing fee or refund account fee payable by such Obligor to the RAL Originator for such RAL. Each of the foregoing elements of a RAL shall be deemed to be made for purposes of this Agreement on the Business Day on which the RAL check clears the bank account used by the RAL Originator for the disbursement of RALs and such fact has been recorded in the computer files the RAL Originator uses for administering RALs; and

(b) shall also include any payment made at any time by the RAL Originator with respect to any lost, altered or stopped check issued by or on behalf of the RAL Originator in connection with a RAL described in paragraph (a) (the "Underlying RAL"),

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as well as any payment by the RAL Originator with respect to any lost, altered or stopped replacement check. Payments on any RAL described in this paragraph (b) shall be deemed to be made for purposes of this Agreement on the Business Day when the replacement RAL check clears the bank account used by the RAL Originator for the disbursement of RALs and such fact has been recorded in the computer files the RAL Originator uses for administering RALs.

"Qualified Expenses" shall mean all direct expenditures incurred in good faith by Tax Masters or any of its Affiliates in connection with ordinary and routine origination and servicing of Participated Pool RALs and Pool RACs or the performance of Tax Masters' obligations hereunder (other than the cost of repurchasing Participation Interests as required by Sections 4.3 or 4.4) or under the RAL Operations Agreement (or a Major Franchisee RAL Agreement, as the case may be), including (without limitation) fees and amounts paid or payable to Originator Parties, salaries, employee benefits, data processing costs, depreciation, equipment rent, equipment maintenance, space rent, maintenance, credit reports, legal forms and supplies, non-litigation legal expenses, telephone and telegraph, postage, delivery charges, travel, purchased services and systems, professional and consulting, external staff training and other personnel-related expenses, advertising, sales promotion, collection, systems, systems development, check clearing, cash management, software purchase, licensing or development, fees of licensing service marks, trademarks or other intellectual property, the costs of obtaining the accountant's report obtained pursuant to Section 2.4(f), and data processing expenses; provided, however, that Qualified Expenses shall not include (i) any bad debt expense pertaining to any Participated Pool RAL, (ii) License Fees, to the extent duplicative of amounts as to which BFC has paid its proportionate share pursuant to Section 2.3(b), (iii) any allocated expenses not related directly to the origination of Participated Pool RALs or the making of Pool RACs, the ordinary and routine servicing of Participated Pool RALs or the performance by Tax Masters or any of its Affiliates of its obligations under this Agreement or the RAL Operations Agreement (or a Major Franchisee RAL Agreement, as the case may be), whether such expenses are allocated internally by Tax Masters or allocated to Tax Masters by any of its Affiliates, (iv) interest expense, if any, incurred by Tax Masters or any of its Affiliates in connection with the portion of Participated Pool RALs that was not sold to and purchased by BFC, (v) any expenses pertaining to Tax Masters' fraud service bureau to the extent Tax Masters receives reimbursement of such expenses by Persons other than BFC or its Affiliates, (vi) collection costs or expenses with respect to delinquent Participated Pool RALs with respect to which Tax Masters (or any of its Affiliates) receives a collection fee pursuant to Section 3.4, (vii) allocations of corporate overhead expenses (including, without limitation, corporate management salaries and benefits and depreciation of general plant and equipment not specifically related to the origination and servicing of Participated Pool RALs), (viii) any cost or expense for which Tax Masters or its Affiliates are reimbursed by a third party (other than an Affiliate of Tax Masters) (including, without

limitation, costs or expenses for which Tax Masters is reimbursed by Block Services pursuant to the indemnification provisions of the RAL Operations Agreement) or (ix) any expenditures for goods or services procured by Tax Masters or any of its Affiliates that are not related directly to the origination of Participated Pool RALs, the making of Pool RACs or the performance by Tax Masters or any of its Affiliates of its or their obligations under this Agreement or the RAL Operations Agreement (or a Major Franchisee RAL Agreement, as the case may be).

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In the event any expenditure that pertains to more than one Budget Period or should be capitalized and amortized or depreciated over more than one Budget Period in accordance with generally accepted accounting principles, such expenditure shall be capitalized and included in Qualified Expenses for a Budget Period only to the extent that such capitalized expenditure is (or should be) amortized or depreciated during such Budget Period in accordance with generally accepted accounting principles.

Qualified Expenses shall be allocated to Participated Pool RALs for a Budget Period on the following basis (it being understood that, to the extent that the operating unit of Tax Masters or its Affiliates that services RALs and RACs also deals with other electronic filing derivative products, Tax Masters shall allocate as Qualified Expenses only the expenses of such unit that are otherwise Qualified Expenses) as it estimates in good faith are allocable to RALs and RACs and not to other electronic filing derivative products: (x) all permitted expenses as described above of Tax Masters and its Affiliates for RALs and RACs of all types (whether or not Pool RALs or Pool RACs) during a Budget Period shall be aggregated, (y) the result shall be divided by the total number of RALs and RACs of all types purchased by Tax Masters during the corresponding Tax Period, and (z) the result shall be multiplied by the number of RALs and RACs made by the RAL Originator during such Tax Period that are Participated Pool RALs and Pool RACs (and such result shall be deemed the Qualified Expenses allocable to Participated Pool RALs and Pool RACs for such Budget Period). An illustrative example of the allocation of Qualified Expenses to Participated Pool RALs and Participated Pool RACs is set forth in Exhibit B attached hereto.

"RAC" means a check issued by the RAL Originator and delivered to a taxpayer pursuant to a Refund Anticipation Check Service.

"RAL" shall mean any refund anticipation loan from time to time made by the RAL Originator.

"RAL Guidelines" shall mean the RAL Originator's policies and procedures from time to time relating to the operation of its refund anticipation loan business, including (without limitation) the policies and procedures for determining the credit worthiness of refund anticipation loan customers, the extension of credit to refund anticipation loan customers and relating to the collection and charge off of refund anticipation loans.

"RAL Originator" shall mean the insured depository institution engaged by Tax Masters (subject to the Block Companies' rights under the Letter Agreement) to serve as the originator under the RAL Program.

"RAL Operations Agreement" shall have the meaning set forth in Recital G.

"RAL Participation Agreement" shall have the meaning set forth in Recital D.

"RAL Program" shall have the meaning assigned to it in the RAL Operations Agreement.

"Reassignment Amount" shall have the meaning set forth in Section 4.3.

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"Reassignment Date" shall have the meaning set forth in Section 4.3.

"Refund Anticipation Check Service" shall mean a service pursuant to

which a check in the amount of a taxpayer's federal income tax refund, less the sum of (a) fees charged for the making of the check, (b) tax preparation and electronic filing fees and (c) other properly withheld amounts, is delivered to a taxpayer on account of a direct deposit refund (other than in connection with a RAL made in advance of receipt of the related refund). "Refund Anticipation Check Service" includes the delivery of a direct deposit refund check to a taxpayer in connection with such taxpayer's denied RAL application.

"Repurchase Value" of a Participated Pool RAL at any time shall mean the Principal Amount of such Participated Pool RAL, less any Collections received with respect to such Participated Pool RAL.

"Required Servicing Compensation" means the amount of compensation the RAL Originator is entitled to receive for originating and servicing Participated Pool RALs and Pool RACs for a particular Budget Period as computed pursuant to Section 2.4(a)(iv).

"Servicing Adjustment" shall have the meaning set forth in Section 2.3(c).

"Tax Period" for any year shall mean the period from and including January 1 of such year to and including August 15 of such year.

"Tax Masters" shall mean Household Tax Masters, Inc., a Delaware corporation.

"UCC" shall mean the Uniform Commercial Code, as amended from time to time, as in effect in any specified jurisdiction.

"Underlying RAL" shall have the meaning given that term in paragraph (b) of the definition of "Principal Amount".

Section 1.2. Other Definitional Provisions. Unless the context of this Agreement otherwise clearly requires, references to the plural include the singular, the singular the plural and the part the plural. The words "hereof," "herein" and "hereunder" and words of similar import when used in this Agreement shall refer to this Agreement as a whole and not to any particular provision of this Agreement; and Section and subsection references contained in this Agreement are references to Sections and subsections in this Agreement unless otherwise specified.

ARTICLE II PURCHASE AND SALE OF INTERESTS IN POOL RALS

Section 2.1. Purchase and Sale of Participation Interests in Pool RALs.

(a) Purchase and Sale. Subject to the conditions set forth in this Agreement, Tax Masters agrees to sell to BFC, and BFC agrees to purchase from Tax Masters, from time to time, on a "checks cleared" basis, an undivided ownership interest in, and in an amount equal to the Applicable Percentage of, all of Tax Masters' right, title and interest

in and to each Pool RAL hereafter created, including all monies due or to become due with respect thereto and all Collections pertaining thereto and other proceeds (as defined in the UCC as in effect in the State of Delaware) thereof (a "Participation Interest"). Subject to the conditions set forth herein BFC agrees to pay for, purchase and accept all Participation Interests from time to time as provided herein. Except for the representations and warranties expressly made by Tax Masters in this Agreement, Participation Interests (and acquisition thereof by BFC) shall be without recourse to Tax Masters. Tax Masters represents and warrants to BFC that the Pool RALs were originated in compliance with the Final Credit Criteria and Final RAL and RAC Fees (as defined in the RAL Operations Agreement) and applicable law, excluding, however, any failure to comply which results from (i) any misrepresentation or omission to state a material fact by a RAL Customer, or (ii) action or inaction by any Block Office, Major Franchisee or subfranchisee of a Major Franchisee to perform its explicit obligations under this Agreement, a corporate franchise agreement between Block Services and a Corporate Franchise, a Major Franchisee RAL Agreement, or a subfranchisee agreement relating to the RAL

Program between a Major Franchisee and a subfranchisee, as applicable (except for any action or inaction by such entities due to changes to the RAL Program required by the RAL Originator or Tax Masters outside of the deadlines set forth in this Agreement for any such changes).

(b) The conveyance by Tax Masters to BFC of a Participation Interest in a Pool RAL shall be deemed to occur at the time when Tax Masters receives full payment from BFC of the Initial Purchase Price in respect to such Participation Interest corresponding to such Participated Pool RAL and all other Participated Pool RALs of Tax Masters arising on the same day. Upon such conveyance, BFC shall be the owner, to the extent of the Applicable Percentage, of a Participation Interest in such Pool RAL. The parties intend that if and to the extent that any conveyance of a Participation Interest in a Pool RAL is not deemed a sale of a Participation Interest, Tax Masters shall be deemed to have granted to BFC a security interest in the Participation Interest that was purportedly conveyed and that this Agreement shall constitute a security agreement under applicable law. Tax Masters agrees to authorize the filing of financing and continuation statements as BFC may from time to time reasonably request with respect to Participation Interests hereafter created or arising.

(c) Upon BFC's request, Tax Masters agrees to use all commercially reasonable efforts to obtain for BFC (i) a "true sale" opinion of counsel to Tax Masters with respect to the sale by Tax Masters and the purchase by BFC of the Participation Interests in the Pool RALs, and (ii) a "nonconsolidation" opinion of counsel to Tax Masters with respect to Tax Masters and any subsidiary of Tax Masters that owns the Participation Interests prior to such sale and purchase, in both cases in form and substance typically employed in off-balance sheet financing or sale transactions generally; provided, however, that in connection with such efforts (A) Tax Masters shall not be obligated to restructure the terms of any agreement relating to the RAL Program, or any aspect of the RAL Program itself, in any way that adversely affects the economic interests of Tax Masters or its Affiliates, and (B) the failure of Tax Masters to obtain such opinions (after making commercially reasonable efforts to do so) shall not constitute a breach of any of Tax Masters' obligations under this Agreement and shall in no event

give rise to any liability on the part of Tax Masters or any of its Affiliates. With respect to such opinions and the RAL Program for a particular Tax Year, (1) BFC shall use all commercially reasonable efforts to request such opinions as soon as reasonably possible during the immediately preceding calendar year, and in any event, no later than September 1st of such preceding calendar year absent major structural changes to the RAL Program made or proposed by Tax Masters, (2) BFC shall use all commercially reasonable efforts to identify the entity, if any, with whom it intends to effectuate any financing or sale transaction, and the proposed structure of such financing or sale transaction, as soon as reasonably possible during the immediately preceding calendar year, and in any event, no later than September 1st of such preceding calendar year absent major structural changes to the RAL Program made or proposed by Tax Masters, and (3) BFC and Tax Masters shall cooperate and use all commercially reasonable efforts to complete all changes to the RAL Program, if any, and the legal documents and agreements reflecting such changes, if any, as soon as reasonably possible during the immediately preceding calendar year, and in any event no later than October 15th of such preceding calendar year absent major structural changes to the RAL Program made or proposed by either BFC or Tax Masters. BFC shall be solely responsible for all legal fees of the parties associated with any opinion undertaken pursuant to this Section 2.1(c). In connection with any request by BFC for an opinion pursuant to this Section 2.1(c) for a particular Tax Year, Tax Masters shall, upon reasonable request by BFC, provide to BFC copies of all material operative agreements executed by Tax Masters or its Affiliates relating to the origination of RALs by the RAL Originator, or the sale and servicing of Tax Masters' retained interest in the Pool RALs, for such Tax Year, as well as all material operative agreements executed by Tax Masters or its Affiliates relating to the financing or sale of such retained interest for such Tax Year, in each case only to the extent (i) such agreements are reasonably necessary to be reviewed by BFC in connection with the opinions contemplated by this Section 2.1(c), and (ii)

the terms of such agreements permit disclosure to third parties; provided, however, that Tax Masters shall not add any provision to any such agreement that unreasonably prohibits disclosure to BFC, its accountants or counsel engaged in connection with the issuance of any opinion pursuant to this Section 2.1(c), or the entity, if any, engaged by BFC to effectuate any financing or sale transaction. BFC hereby agrees to hold all such agreements in strict confidence and not provide any copies or disclose any terms therein to any party other than its accountants, its counsel and the entity, if any, with whom BFC proposes to effectuate any financing or sale transaction; provided, however, that, notwithstanding any other provision in this Agreement, if such entity or an Affiliate of such entity is deemed by Tax Masters to be a competitor of Tax Masters in the making or servicing of RALs, then the disclosure of such agreements to such entity may be restricted by Tax Masters to the extent deemed necessary by Tax Masters, in its sole discretion, to protect its business interests and trade secrets.

Section 2.2. Procedure. Each Business Day not later than 9:00 a.m., New Jersey time, Tax Masters as servicer for the RAL Originator shall give notice to BFC (which notice may be by telephone, e-mail or facsimile) of the number and Principal Amount of Pool RALs made by the RAL Originator and in which Tax Masters has purchased a participation interest on the preceding Business Day (it being understood that, for such purpose, a Pool RAL shall be deemed to be made at the time set forth in the definition of "Principal Amount" in this

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Agreement), together with the Initial Purchase Price for the Participation Interest corresponding to such Pool RALs. Not later than 4:00 p.m., New Jersey time, on such Business Day, BFC shall pay to Tax Masters the full amount of such Initial Purchase Price. Such payment shall be made to Tax Masters at such domestic account designated by Tax Masters by notice to BFC from time to time, in United States dollars and in funds immediately available at such office at such time, without setoff, withholding, counterclaim or other deduction of any nature whatsoever.

Section 2.3. Initial Purchase Price. The Initial Purchase Price for a Participation Interest shall be equal to the sum of:

(a) the sum, for each Pool RAL corresponding to such Participation Interest, of the product of (i) the Applicable Percentage applicable to such Pool RAL, times (ii) the Principal Amount of such Pool RAL (the aggregate amount referred to in this clause (a) being referred to as the "Base Purchase Price" with respect to such Participation Interest), plus

(b) the sum, for each Pool RAL corresponding to such Participation Interest, of the product of (i) the Applicable Percentage applicable to such Pool RAL, times (ii) the License Fees, if any, paid or payable by Tax Masters in connection with such Pool RAL (the aggregate amount referred to in this clause (b) being referred to as the "License Fee Adjustment" with respect to such Participation Interest), plus

(c) the sum, for each Pool RAL corresponding to such Participation Interest, of the product of (i) the Periodic Servicing Fee Percentage applicable to such Pool RAL, times (ii) the Principal Amount of such Pool RAL (the aggregate amount referred to in this clause (c) being referred to as the "Servicing Adjustment" with respect to such Participation Interest).

An illustrative example of the Initial Purchase Price formula is set forth in Exhibit A attached hereto. The Initial Purchase Price for Participation Interests shall be adjusted as provided in this Agreement, including Sections 2.4(b) through (d) of this Agreement.

Section 2.4. Determination and Adjustment of Periodic Servicing Fee Percentage; Adjustment of the Initial Purchase Price.

(a) Determination of Initial Periodic Servicing Fee Percentage. The Initial Periodic Servicing Fee Percentage shall be determined in the following manner:

(i) Preparation of Annual Budget and Initial Periodic Servicing Fee Percentage Calculation. Tax Masters shall, after

consultation with BFC, not later than September 15 before the beginning of each Tax Period, provide BFC with written notice of (A) its best preliminary estimate of the aggregate Principal Amount of Pool RALs and the number of Pool RACs to be made by RAL Originator during such forthcoming Tax Period, (B) a budget of Qualified Expenses (which shall take into account the estimated Pool RAL volume and Pool RAC volume) and (C) a preliminary calculation of the Required Servicing Compensation and the Initial Periodic Servicing Fee Percentage (each of which shall be calculated pursuant to Sections 2.4(a) (iii) and (iv) and shall be based

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upon the estimate and budget referred to in this subclause (i)). The budget of Qualified Expenses shall list in reasonable detail by category Qualified Expenses it expects to incur during the Budget Period relating to such Tax Period in connection with the RAL Originator's origination and making of, and Tax Masters' ordinary and routine servicing of, the Pool RALs and Pool RACs expected to be made by the RAL Originator during such Tax Period. An illustrative example of the allocation of Qualified Expenses to Participated Pool RALs and Participated Pool RACs is set forth in Exhibit B attached hereto.

(ii) Review of Annual Budget by BFC. BFC shall have the right, for a period of 45 days from and after the date it has received from Tax Masters the items referred to in Section 2.4(a) (i), to review such items and suggest subcontracting specified servicing functions contemplated by the budget that, in the belief of BFC, may be performed more economically than is contemplated by such budget. In such event, BFC and Tax Masters shall solicit three bids from qualified subcontractors of nationally recognized standing selected by Tax Masters and BFC to perform such functions. Tax Masters shall either engage the subcontractor that submits the lowest bid or perform such function at the cost of the average of the three bids submitted by such subcontractors. Tax Masters shall revise such budget accordingly.

(iii) Calculation of Initial Periodic Servicing Fee Percentage. The Initial Periodic Servicing Fee Percentage for a Tax Period shall be equal to (A) Tax Masters' estimate of the aggregate Required Servicing Compensation for the Budget Period relating to such Tax Period, as based upon the budget for such Budget Period pursuant to Section 2.4(a) (i), divided by (B) Tax Masters' estimate or the Principal Amount of Participated Pool RALs to be made in such Tax Period, as provided pursuant to Section 2.4(a) (i). An illustrative example of the Initial Periodic Servicing Fee Percentage formula is set forth in Exhibit C attached hereto.

(iv) Calculation of Required Servicing Compensation. The Required Servicing Compensation for a Budget Period shall be equal to the sum of:

(A) the sum, for each of the categories of Pool RALs (a category consisting of all Pool RALs to which the same Applicable Percentage applies pursuant to this Agreement), of the product of (I) the Applicable Percentage for such category for the relevant Tax Period, times (II) \$2.00 (for the Tax Period beginning on January 1, 1997, and for Tax Periods thereafter \$2.00 adjusted as set forth below by the CPI for the Applicable Tax Period), times (III) the number of Participated Pool RALs of such category made by RAL Originator during the relevant Tax Period, plus

(B) the sum, for each of the categories of Pool RALs, of the product of (I) the Applicable Percentage for such category for the relevant Tax Period, times (II) Qualified Expenses allocable to Participated Pool

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RALs and Pool RACs during the Budget Period, times (III) a fraction, the numerator of which is the aggregate Principal Amount of such category of Pool RALs made during such Budget Period and the denominator of which is the aggregate Principal Amount of all Pool RALs made during such Budget Period.

The adjustment referred to in subclause (A) of the preceding sentence for each Tax Period beginning on or after January 1, 1998 shall be made as follows: for such Tax Period, in lieu of \$2.00, the amount referred to in clause (A) of the preceding sentence shall be \$2.00 times a fraction, the numerator of which shall be the average CPI for the June, July and August preceding the beginning of such Tax Period, and the denominator of which shall be the average CPI for the months of June, July and August 1996.

For all purposes of calculating the Required Servicing Compensation, only RALs of the type described in paragraph (a) of the definition of "Principal Amount" shall be counted as Participated Pool RALs and each Pool RAL in which a Participation Interest was purchased and sold pursuant to this Agreement during a Tax Period shall be counted as a Participated Pool RAL made during such Tax Period.

An illustrative example of the Required Servicing Compensation formula is set forth in Exhibit D attached hereto.

(b) Periodic Adjustment of the Periodic Servicing Fee Percentage. At any time and from time to time during a Budget Period, Tax Masters may in its discretion, and shall at the reasonable request of BFC, review its then-current estimate of its Qualified Expenses for such Budget Period and of the volume of Participated Pool RALs during the related Tax Period. Following such review, Tax Masters shall, by notice to BFC, increase or reduce the Periodic Servicing Fee Percentage, effective two Business Days after the giving of such notice, by such amount as Tax Masters in good faith estimates is appropriate to reduce the next forthcoming settlement referred to in Sections 2.4(c) (i) or 2.4(c) (ii), as the case may be, to as small an amount as possible. If such adjustment results in a refund payable to BFC pursuant to Sections 2.4(c) (i) or 2.4(c) (ii) in an amount in excess of \$100,000, Tax Masters shall pay BFC interest on the Average Refund Balance at a rate of interest equal to RAL Originator's prime rate of interest, fluctuating daily, in effect during the period commencing on the later of January 15 of the related Tax Period or the date of the most recent adjustment of the Periodic Servicing Fee Percentage pursuant to this Section 2.4(b) and ending on the date such refund is paid to BFC (the "Accrual Period"). Such interest shall accrue during the term of the Accrual Period. As used herein, "Average Refund Balance" shall mean an average weighted daily balance of the amount by which such refund exceeds \$100,000, assuming such excess accrues ratably during the term of the Accrual Period. An illustrative example of the periodic adjustment of the Periodic Servicing Fee Percentage is set forth in Exhibit E attached hereto.

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(c) Adjustment of Servicing Compensation to Required Servicing Compensation.

(i) Interim Servicing Compensation Adjustment. On a date (the "Adjustment Date") selected by Tax Masters, such Adjustment Date being not later than 30 days after the end of each Tax Period, Tax Masters shall calculate and provide to BFC, in reasonable detail and, to the extent possible, in a format consistent with that used to prepare the annual budget, a calculation of Tax Masters' Qualified Expenses accrued through the end of such Tax Period. Tax Masters shall also calculate and provide to BFC notice of the Required Servicing Compensation accrued through the end of such Tax Period (calculated as if such Budget Period had ended on such date) and the Periodic Servicing Compensation paid through the end of such Tax Period. If such Required Servicing Compensation is greater than such Periodic Servicing Compensation, BFC shall pay the excess to Tax Masters. If such Required Servicing Compensation is less than such Periodic Servicing Compensation, Tax Masters shall pay the excess to BFC. An illustrative example of the foregoing adjustment is set forth in Exhibit F attached hereto.

(ii) Final Servicing Compensation Adjustment. Not later than January 8 following any Budget Period, Tax Masters shall calculate and provide to BFC, in reasonable detail and, to the extent possible, in a format consistent with that used to prepare the annual budget, a calculation of Tax Masters' Qualified Expenses for the preceding Budget Period. Tax Masters shall also calculate and provide to BFC notice of the Required Servicing Compensation for such Budget Period and the Periodic Servicing Compensation for such Budget Period. If such Required Servicing Compensation is greater than such Periodic Servicing Compensation, BFC shall pay the excess to Tax Masters. If such Required Servicing Compensation is less than such Periodic Servicing Compensation, Tax Masters shall pay the excess to BFC. An illustrative example of the foregoing adjustment is set forth in Exhibit G attached hereto.

(d) Float Adjustment. Concurrently with the payment of the settlement referred to in Section 2.4(c)(i), Tax Masters shall pay to BFC an amount equal to the product of \$.50 times the number of Pool RACs (other than Pool RACs issued through a Major Franchisee or a subfranchisee of a Major Franchisee) issued during the Tax Period with respect to which such settlement relates. Such amount shall be offset against the amount, if any, owed by BFC to Tax Masters under Section 2.4(c)(i) so that only a net amount shall be owed under such Section 2.4(c)(i) and this Section 2.4(d).

(e) General Adjustment Payment Provisions. Payments under Sections 2.4(c) and 2.4(d) shall be due and payable by wire transfer not later than 2:00 p.m., New Jersey time, five Business Days after notice from Tax Masters setting forth such calculations, and such payment shall be deemed an adjustment to the Initial Purchase Price of the Participation Interests relating to Pool RALs made during the foregoing Tax Period.

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(f) Accountants' Report. At the request of BFC (but no more often than annually), on or before June 30 of each year, Tax Masters shall obtain from its independent certified public accountants a special report (in such form and subject to such assumptions, limitations and qualifications as such accountants generally require for special reports of such type) that shall in effect state that the amounts calculated for the previous Tax Period under clause (c)(ii) above are in compliance with this Agreement or stating the nature of any variance from this Agreement.

(g) Information About Servicing Costs. Tax Masters shall provide BFC with all information reasonably requested by BFC from time to time about Tax Masters' cost accounting methods pertaining to the making of RACs and the servicing and collection of Pool RALs and other RALs, and about the costs and expenses incurred by Tax Masters from time to time pertaining to the servicing and collection of Pool RALs and other RALs. BFC shall have the right from time to time, at its expense, upon reasonable advance notice, to cause a firm of nationally recognized independent accountants selected by it to examine and verify such information.

(h) Arbitration. Any dispute or controversy between BFC and Tax Masters involving the determination and/or the calculation of the Servicing Adjustment, the Initial Periodic Servicing Fee Percentage, the Required Servicing Compensation, the Periodic Servicing Fee Percentage, Periodic Servicing Compensation and/or Qualified Expenses, or any other dispute or controversy or relating to the calculations or determinations made pursuant to this Section 2.4, shall be submitted to, and settled by, arbitration in accordance with the provisions of this paragraph (h) and the rules of the American Arbitration Association (except as herein specifically otherwise stated or amplified). The arbitrator in the arbitration provided for in this paragraph (h) shall be an independent public accounting firm of nationally recognized standing that (A) is qualified under the rules of the American Arbitration Association, (B) has not provided audit or consulting services to either BFC, Tax Masters, the RAL Originator or any of their Affiliates during the immediately preceding two calendar years and (C) has not been engaged by either BFC, Tax Masters or the RAL Originator or any of their Affiliates to provide audit or consulting services for the current fiscal year of either party. BFC shall select two independent public accounting firms that qualify under the preceding sentence and shall submit the name of such firms to Tax Masters,

which in turn shall designate one of such firms as the arbitrator. The decision of the arbitrator shall be final, binding, conclusive and nonappealable. Each party shall make such records available to the arbitrator as shall be necessary for such arbitrator to render a decision. Other than attorneys' fees and expenses (which shall be borne by the party incurring the same), the costs of the arbitration shall be borne equally by BFC and Tax Masters.

Section 2.5. Applicable Percentages. The Applicable Percentage for Corporate Pool RALs shall be 40%; provided, however, the Applicable Percentage for Corporate Pool RALs shall be 49.999999% for each Tax Period during which Tax Masters (or any of its Affiliates) is the exclusive facilitator of a Refund Anticipation Check Service to customers of Block Offices owned by Block Services, Corporate Franchises and any of Block Services' Affiliates. The Applicable Percentage for a Major Franchisee Pool RAL shall be 25%. Notwithstanding the foregoing provisions of this Section 2.5, any Applicable Percentage (a) for a

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particular Tax Period may be such lesser percentage as specified by BFC by giving written notice to Tax Masters on or before September 1 immediately prior to such Tax Period (it being understood that (i) such lesser percentage shall pertain only to the particular Tax Period for which such notice is given and (ii) if no such notice is given for a particular Tax Period, the Applicable Percentages shall be the percentages as set forth in this Section 2.5), or (b) for any portion of a particular Tax Period shall be reduced to zero if BFC has exceeded its internal funding limit (it being understood that (i) the reduction of the percentage to zero shall only be in effect during the periods of time BFC has exceeded its internal funding limit and (ii) for the periods of time BFC has not exceeded its internal funding limit, the Applicable Percentages shall be the percentages as set forth in this Section 2.5).

ARTICLE III SERVICING, ADMINISTRATION AND COLLECTION OF POOL RALS

Section 3.1. Servicing and Administration of Participated Pool RALs. Tax Masters as servicer for the RAL Originator shall underwrite, service and administer the Participated Pool RALs and shall collect payments due under the Participated Pool RALs in accordance with its customary and usual servicing procedures for servicing RALs made by the RAL Originator through Block Offices or Major Franchisees or subfranchisees of Major Franchisees and in accordance with the RAL Guidelines, and in which Tax Masters has purchased a participation interest. Tax Masters as servicer for the RAL Originator shall, subject to the terms of this Section 3.1, have full power and authority, acting alone or through any party properly designated by it hereunder, to do any and all things in connection with such servicing and administration that it may deem necessary or desirable. Without limiting the generality of the foregoing, Tax Masters as servicer for the RAL Originator is hereby authorized and empowered to execute and deliver, on behalf of BFC, any and all instruments of satisfaction or cancellation, or of partial or full release or discharge, and all other comparable instruments, with respect to the Participated Pool RALs and, after the delinquency of any Participated Pool RAL and to the extent permitted under and in compliance with applicable law and regulations, to commence enforcement proceedings with respect to such Participated Pool RALs. In addition, without limiting the generality of the foregoing, Tax Masters as servicer for the RAL Originator is hereby authorized and empowered, in the ordinary course of collecting any Defaulted Pool RAL, to sell or transfer such Defaulted Pool RAL free and clear of any interest of BFC (proceeds of such sale or transfer being treated as Collections for purposes of Section 3.2). BFC shall furnish Tax Masters with any documents necessary or appropriate to enable Tax Masters to carry out its servicing and administrative duties hereunder. Tax Masters shall not be obligated to use servicing procedures, offices, employees or accounts for servicing the Participated Pool RALs that are separate from the procedures, offices, employees and accounts used by Tax Masters in connection with servicing other refund anticipation loans.

Section 3.2. Collections. On each Business Day not later than 4:00 p.m., New Jersey time, Tax Masters as servicer for the RAL Originator shall distribute the Applicable Percentage in all Collections (except those payments received from the Internal Revenue Service ("IRS") in the normal processing of refunds designated for direct deposit) with respect to each Participated Pool RAL received by Tax Masters as servicer for the RAL Originator (or any of its

Affiliates) on the preceding Business Day (less collection fees payable by BFC to Tax Masters or

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Tax Masters' Affiliates pursuant to Section 3.4). Such distribution shall be made to BFC at such domestic account designated by BFC by notice to Tax Masters from time to time, in United States dollars and in funds immediately available at such office at such time, without setoff, withholding, counterclaim or other deduction of any nature whatsoever and regardless of the form of Collection received by Tax Masters as servicer for the RAL Originator (or any of its Affiliates). Funds received from the IRS as part of the normal processing of refunds designated for direct deposit will be distributed to BFC in the manner provided herein on the day that RAL Originator receives such funds in its designated account(s) at the applicable United States Federal Reserve Bank; provided, that one day's interest shall be deducted by Tax Masters as servicer for the RAL Originator from each such payment in order to reflect the fact that the fundings of Participated Pool RALs are on a one-day delayed basis. For the purpose of the above-referenced interest deduction, interest shall be calculated on the basis of a 365 day year (or a 366 day year in a leap year) at the 30 day dealer placed commercial paper rate as published in the Money Rates section of the Wall Street Journal for the previous Business Day.

Section 3.3. Reports; Records for BFC.

(a) Daily Reports. On each Business Day during an Applicable Tax Period, Tax Masters as servicer for the RAL Originator shall prepare and forward to BFC a report setting forth (i) the aggregate amount of Collections processed by Tax Masters as servicer for the RAL Originator (or any of its Affiliates) with respect to Participated Pool RALs on the preceding Business Day and BFC's share thereof, (ii) the number of, and aggregate outstanding amount of, Participated Pool RALs as of the close of business on the preceding Business Day and BFC's share thereof, and (iii) the number of Pool RACs made by the RAL Originator on the preceding Business Day and BFC's share of RAC fees pertaining thereto. Tax Masters as servicer for the RAL Originator shall at all times maintain its computer files with respect to Pool RACs and Participated Pool RALs in such a manner so that Pool RACs and Participated Pool RALs may be specifically identified.

(b) Monthly Reports. On the 8th day of each calendar month, or if such day is not a Business Day, the immediately preceding Business Day, Tax Masters as servicer for the RAL Originator shall forward to BFC a report setting forth (i) the aggregate amount of Collections processed with respect to Participated Pool RALs during the preceding calendar month and BFC's share thereof, (ii) the aggregate amount of Participated Pool RALs outstanding as of the end of the last day of the preceding calendar month and BFC's share thereof, (iii) an aging of Participated Pool RALs outstanding as of the end of the last day of the preceding calendar month, (iv) the aggregate Defaulted Pool RALs as of the end of the last day of the preceding calendar month and BFC's share thereof, (v) the number of Pool RACs made during the preceding calendar month and BFC's share of Collections pertaining thereto, and (vi) the aggregate Participated Pool RALs that are not Defaulted Pool RALs but with respect to which payment has not been received within 30 days after such Participated Pool RALs were made by the RAL Originator and a participation interest therein was purchased by BFC, and BFC's share thereof. Such report shall be accompanied by an officer's certificate, stating that to the best of such officer's knowledge such report is complete and accurate.

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(c) Independent Accountants' Reports. BFC may cause a firm of nationally recognized independent accountants (who may also render services to Tax Masters) to furnish, at the expense of BFC, a report to BFC and Tax Masters to the effect that such firm has made a study and evaluation of the RAL Originator's and Tax Masters' internal accounting controls relative to the making of Pool RACs and servicing of Participated Pool RALs under this Agreement, and that, on the basis of such study and evaluation, such firm is of the opinion (assuming the accuracy of any reports generated by the RAL Originator's and Tax Masters' third party

agents) that the systems of internal accounting controls in effect on the date set forth in such report relating to making of Pool RALs by the RAL Originator and servicing procedures performed by Tax Masters as servicer for the RAL Originator pursuant to the terms of this Agreement, taken as a whole, were sufficient for the prevention and detection of errors for such exceptions, errors or irregularities as such firm shall believe to be immaterial to the financial statements of the RAL Originator and Tax Masters and such other exceptions, errors or irregularities as shall be set forth in such report.

Section 3.4. Collection Fee for Defaulted Pool RALs. BFC shall pay to Tax Masters as servicer for the RAL Originator a collection fee in an amount equal to the Applicable Percentage with respect to a Defaulted Pool RAL, times 25% of the Principal Amount of each Defaulted Pool RAL collected by collection offices of Tax Masters as servicer for the RAL Originator or any of its Affiliates. Such fee shall be paid in the form of a deduction from Collections remitted to Tax Masters (or an Affiliate of Tax Masters) pursuant to Section 3.2 pertaining to such Participated Pool RAL.

ARTICLE IV REPRESENTATIONS AND WARRANTIES

Section 4.1. General Representations and Warranties of Tax Masters. Tax Masters hereby represents and warrants to BFC as of the date hereof (which representations and warranties shall survive any purchase and sale of Participation Interests pursuant to this Agreement):

(a) Organization and Good Standing. ICB is a commercial bank duly organized and validly existing under the laws of the State of California, has its principal banking office located in the State of California and has a bank branch located and authorized to conduct banking operations in the State of Nevada. ICB has full corporate power and authority to own its properties and conduct its business as such properties are presently owned and such business is presently conducted, and to execute, deliver and perform its obligations under this Agreement. Tax Masters is a corporation duly organized and validly existing under the laws of the State of Delaware and has full corporate power and authority to own its properties and conduct its business as such properties are presently owned and such business is presently conducted, and to execute, deliver and perform its obligations under this Agreement.

(b) Due Authorization. The execution and delivery of this Agreement and the consummation of the transactions provided for in this Agreement have been duly

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authorized by Tax Masters by all necessary corporate action on its part and this Agreement will remain, from the time of its execution, an official record of Tax Masters.

(c) No Conflict. The execution and delivery of this Agreement, the performance of the transactions contemplated by this Agreement and the fulfillment of the terms hereof will not conflict with, result in any breach of the material terms and provisions of, or constitute (with or without notice or lapse of time or both) a material default under, any indenture, contract, agreement mortgage, deed of trust, or other instrument to which Tax Masters is a party or by which it or any of its properties are bound.

(d) ICB's Deposit Accounts. Deposits in ICB's deposit accounts are insured to the limits provided by law by the Bank Insurance Fund administered by the Federal Deposit Insurance Corporation.

Section 4.2. Representations and Warranties of Tax Masters Relating to the Participated Pool RALs. Tax Masters hereby represents and warrants to BFC as of each Closing Date (which representations and warranties shall survive any purchase and sale of Participation Interests pursuant to this Agreement):

(a) Eligible RAL. Each Participated Pool RAL is an Eligible RAL as of the Closing Date relating to the Participation Interest sold to BFC with respect to such Participated Pool RAL.

(b) Sale and Ownership; Title. Each sale of a Participation Interest by Tax Masters to BFC on such Closing Date constitutes either (i) a valid sale, transfer, assignment, set over and conveyance to BFC of all right, title and interest of Tax Masters in and to such Participation Interest (and the Applicable Percentage in the underlying Pool RALs), free and clear of any Lien of any Person claiming through or under Tax Masters or any of its Affiliates, or (ii) if it is ultimately determined by a court of competent jurisdiction that a sale from Tax Masters to BFC did not occur, then a grant of a security interest (as defined in the UCC as in effect in the applicable state) by Tax Masters to BFC in each Participation Interest purportedly conveyed pursuant to such sale. On each Closing Date, immediately prior to any such sale of (or grant of a security interest in) a Participation Interest, Tax Masters will be the sole legal and beneficial owner of, and will have marketable title to, the Participation Interest in the underlying Pool RALs, free and clear of any Lien, claim or encumbrance (other than the interests of BFC contemplated by this Agreement). Neither Tax Masters nor any Person claiming through or under Tax Masters shall have any claim to or interest in such Participation Interest, except for the interest of Tax Masters therein as a "debtor" (specifically, as seller of payment intangibles) for purposes of Article 9 of the UCC.

Section 4.3. Remedy For Breach of Representations and Warranties. In the event of a breach of any of the representations and warranties set forth in Section 4.1, BFC may by notice then given in writing to Tax Masters direct Tax Masters to accept reassignment of the Participation Interests within 30 days of such notice (or within such longer period as may be specified in such notice but in no event later than 120 days), and Tax Masters shall be obligated

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to accept reassignment of the Participation Interests on a date specified by BFC (the "Reassignment Date") occurring within such applicable period on the terms and conditions set forth below; provided, however, that no such reassignment shall be required to be made if, at any time during such applicable period, the representations and warranties contained in Section 4.1 shall then be true and correct in all material respects. In connection with such reassignment, Tax Masters shall remit to BFC on the Reassignment Date an amount equal to the aggregate of the respective Applicable Percentages of the Repurchase Values of each Participated Pool RAL (the "Reassignment Amount"). Such remittance shall be made to BFC at such domestic account designated by BFC by notice to Tax Masters, in United States dollars and in funds immediately available at such office at such time, without setoff, withholding, counterclaim or other deduction of any nature whatsoever. Except as provided in Section 5.1, the obligation of Tax Masters to purchase the Participation Interests in accordance with this Section 4.3 shall constitute the sole remedy respecting any breach of the representations and warranties set forth in Section 4.1 available to BFC.

On the date on which the Reassignment Amount has been paid to BFC, the Participation Interests in the uncollected Participated Pool RALs, all monies due or to become due with respect thereto and all proceeds thereof shall be released to Tax Masters, or its designee or assignee, and BFC shall execute and deliver such instruments of transfer or assignment, in each case without recourse, representation or warranty (except only for the warranty that since the date of sale by Tax Masters to BFC, BFC has not sold, transferred or encumbered any such Participated Pool RALs or interest therein), as shall reasonably be requested by Tax Masters to vest in Tax Masters, or its designee or assignee, all right, title and interest of BFC in and to the Participation Interests in the uncollected Participated Pool RALs, all monies due or to become due with respect thereto and all proceeds thereof. BFC's right to resell and Tax Masters' obligation to repurchase a Participation Interest pursuant to this Section 4.3 shall apply only to a Participation Interest that is adversely affected by or impaired as a result of a breach of a representation or warranty.

Section 4.4. Transfer of Ineligible RALs.

(a) Repurchase. In the event of a breach with respect to a Participated Pool RAL of any representations and warranties set forth in Section 4.2(b)(i), or in the event that a Participated Pool RAL is not an Eligible RAL as a result of the failure to satisfy the conditions set forth in clause (c) of the definition of Eligible RAL, and as a result of such breach of event such Participated Pool RAL is charged off as uncollectible or BFC's rights in, to or under the Participation Interest

therein are materially impaired, then, upon the earlier to occur of the discovery by BFC of such breach or event, or receipt by BFC of written notice from Tax Masters of such breach or event, BFC may by notice then given in writing to Tax Masters direct Tax Masters to repurchase the Participation Interest in each such Participated Pool RAL within 30 days of such notice (or within such longer period as may be specified in such notice but in no event later than 120 days) on a date specified by BFC occurring within such applicable period on the terms and conditions set forth in Section 4.4(c).

(b) Repurchase After Cure Period. In the event of a breach of any of the representations and warranties set forth in Sections 4.2 and 2.1(a), or in the event that a

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Participated Pool RAL is not an Eligible RAL as a result of the failure to satisfy the conditions set forth in the definition of Eligible RAL or Pool RAL (contingent on that failure not being caused by (i) any misrepresentation or omission to state a material fact by a RAL Customer, or (ii) action or inaction of any Block Office, Major Franchisee, or subfranchisee of a Major Franchisee to perform its explicit obligations under this Agreement, a corporate franchise agreement between Block Services and a Corporate Franchise, a Major Franchisee RAL Agreement, or a subfranchisee agreement relating to the RAL Program between a Major Franchisee and a subfranchisee, as applicable (except for any action or inaction by such entities due to changes to the RAL Program required by the RAL Originator or Tax Masters outside of the deadlines set forth in this Agreement for any such changes)), other than a breach or event as set forth in Section 4.4(a), and as a result of such breach any Participated Pool RAL becomes a Defaulted Pool RAL or BFC's rights in, to or under the Participated Pool RAL or its proceeds are materially impaired, then, upon the expiration of 60 days (or such longer period as may be agreed to by BFC, but in no event later than 120 days) from the earlier to occur of the discovery of any such event by BFC or receipt by BFC of written notice from Tax Masters of any such event, BFC may by notice then given in writing to Tax Masters direct Tax Masters to repurchase the Participation Interest in each such Participated Pool RAL within 30 days of such notice (or within such longer period as may be specified in such notice but in no event later than 120 days) on the terms and conditions set forth in Section 4.4(c); provided, however, that no such repurchase shall be required to be made if, on any day prior to such repurchase, such representations and warranties with respect to such Participated Pool RAL shall then be true and correct in all material respects as if such Participated Pool RAL had been created on such day.

(c) Procedures for Repurchase. When the provisions of Sections 4.4(a) or 4.4(b) require repurchase of a Participation Interest in a Participated Pool RAL (such Participated Pool RAL being hereinafter referred to as an "Ineligible RAL"), Tax Masters shall accept reassignment of such Participation by remitting to BFC an amount equal to the Applicable Percentage of the Repurchase Value of the Ineligible RAL as of the date of such repurchase. Such remittance shall be made to BFC at such domestic account designated by BFC by notice to Tax Masters, in United States dollars and in funds immediately available at such office at such time, without setoff, withholding, counterclaim or other deduction of any nature whatsoever. Upon such remittance, BFC shall automatically and without further action be deemed to transfer, assign, set over and otherwise convey to Tax Masters, without recourse, representation or warranty (except for the warranty that since the date of conveyance by Tax Masters to BFC, BFC has not sold, transferred or encumbered any such Participation Interest), all right, title and interest of BFC in and to such Participation Interest. BFC shall execute such documents and instruments of transfer or assignment and take other actions as shall reasonably be requested by Tax Masters to evidence the conveyance of such Participation Interest in the Ineligible RALs, all monies due or to become due with respect thereto and all proceeds thereof pursuant to this Section 4.4(c). The obligation of Tax Masters to repurchase Participation Interests in Ineligible RALs in accordance with this Section 4.4(c) shall constitute the sole remedy respecting any breach of the representations and warranties set forth in Section 4.2 available to BFC.

(d) Impairment. For the purposes of Sections 4.4(a) and (b) above, proceeds of a Participated Pool RAL shall not be deemed to be impaired hereunder solely because such proceeds are held by Tax Masters for more than the applicable period under Section 9-315(d) of the UCC as in effect in the State of Delaware.

ARTICLE V
TERM

Section 5.1. Termination of Purchase and Sale Obligations. The obligations of Tax Masters to sell Participation Interests in Pool RALs pursuant to Section 2.1 that are RALs described in paragraph (a) of the definition of "Principal Amount" in this Agreement, and the obligations of BFC to purchase Participation Interests in such Pool RALs pursuant to Section 2.1, may be terminated:

(a) by the mutual written agreement of BFC and Tax Masters;

(b) by either party, if the RAL Operations Agreement has been terminated;

(c) by Tax Masters, if (i) there is a failure by BFC to perform or observe any material term, covenant or agreement contained in this Agreement, and any such failure shall remain unremedied for 10 days after written notice of such failure shall have been given to BFC by Tax Masters, (ii) there is an order or decree restraining, enjoining, prohibiting, invalidating or otherwise preventing the transactions contemplated by this Agreement or Tax Masters' performance of any of its material obligations under this Agreement, (iii) there shall be pending, or any Governmental Authority shall have notified Tax Masters of its intention to institute, any action, suit or proceeding against Tax Masters to restrain, enjoin, prohibit, invalidate or otherwise prevent the transactions contemplated by this Agreement or Tax Masters' performance of any of its material obligations under this Agreement, (iv) any Participated Pool RAL, or any purchase or sale of a Participation Interest in a Participated Pool RAL, or Tax Masters' performance of any of its material obligations under this Agreement would be illegal, and there are no reasonable steps that Tax Masters could take to prevent such illegality; or (v) there is a dissolution, termination of existence, insolvency, appointment of a receiver of any part of the property of, or assignment for the benefit of creditors by, or the commencement of any proceeding by or against BFC under any bankruptcy or insolvency law;

(d) by BFC, if (i) there is a failure by Tax Masters to perform or observe any material term, covenant or agreement contained in this Agreement and any such failure shall remain unremedied for 10 days after written notice of such failure shall have been given to Tax Masters by BFC, (ii) there is an order or decree restraining, enjoining, prohibiting, invalidating or otherwise preventing BFC's performance of any of its material obligations hereunder, (iii) there shall be pending, or any Governmental Authority shall have notified BFC of its intention to institute, any action, suit or proceeding against BFC to restrain, enjoin, prohibit, invalidate or otherwise prevent BFC's performance of any of its material obligations hereunder, (iv) BFC's performance of any of its material obligations hereunder would be illegal and there are no reasonable steps that BFC could take to prevent such illegality, or (v) there is a dissolution,

termination of existence, insolvency, appointment of a receiver of any part of the property of, or assignment for the benefit of creditors by, or the commencement of any proceeding by or against Tax Masters under any bankruptcy or insolvency law; or

(e) by BFC, if as of any September 15, any representation or warranty of Tax Masters set forth in Section 4.1 would not be true, if repeated as of such date; provided that BFC gives notice of such termination not later than the September 30 next following such September 15.

Tax Masters or BFC shall exercise a right of termination provided above by written notice to the other party. Upon such termination, all obligations of Tax Masters to sell Participation Interests in Pool RALs pursuant to Section 2.1 that are RALs described in paragraph (a) of the definition of "Principal Amount" in this Agreement, and all obligations of BFC to purchase Participation Interests in such Pool RALs pursuant to Section 2.1, shall automatically cease and BFC shall have no further obligation to purchase additional Participation Interests corresponding to such Participated Pool RALs. Termination pursuant to this Section shall not otherwise affect the rights or obligations of the parties hereto under this Agreement. Without limitation, such termination shall not affect the obligations of Tax Masters to sell Participation Interests pursuant to Section 2.1 with respect to Pool RALs that are RALs described in paragraph (b) of the definition of "Principal Amount" in this Agreement to the extent that the Underlying RAL is itself a Participated Pool RAL with respect to which a Participation Interest was sold to BFC prior to such termination, and shall not affect the obligation of BFC to purchase a Participation Interest with respect to such Pool RAL pursuant to Section 2.1.

Section 5.2. Right to Exclude Certain RALs. If, from time to time, BFC or Tax Masters believes in good faith that any specified RALs (of the type described in paragraph (a) of the definition of "Principal Amount" in this Agreement) that otherwise would constitute Pool RALs may violate or conflict with any requirement of law in any jurisdiction, such party (the "Notifying Party") may give notice to the other parties of such fact, specifying the applicable jurisdictions, and specifying such further actions on the part of BFC, Block Tax Services, the RAL Originator or other Persons, if any, as would in the opinion of the Notifying Party prevent such violation or conflict. Unless such steps have been taken within seven days after receipt of such notice, then, effective from and after such seventh day such RALs made after such day in such specified jurisdiction shall not constitute Pool RALs (such RALs being hereinafter referred to as "Excluded RALs"). If such steps subsequently are taken, and the other party gives notice to the Notifying Party of such fact, then the Notifying Party, shall, as promptly as practicable after such notice, by further notice to such other party, revoke its earlier designation of such RALs as Excluded RALs, and RALs of the specified type made after the date of such revocation shall not constitute Excluded RALs (and hence shall constitute Pool RALs).

ARTICLE VI CERTAIN RIGHTS OF TAX MASTERS

Section 6.1. Certain Rights of Tax Masters.

(a) Rescission. If any payment received or application of funds made by Tax Masters on account of any Participated Pool RAL shall be rescinded or otherwise shall be

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required (or if Tax Masters believes in good faith that such payment or application of funds is or may be required) to be returned or paid over by Tax Masters at any time, BFC, promptly upon notice from Tax Masters, shall pay to Tax Masters an amount equal to the Applicable Percentage of the amount so rescinded or returned or paid over, together with the Applicable Percentage of any interest or penalties payable with respect thereto.

(b) Payover. If BFC receives any payment or makes any application on account of its Participation Interest in any Participated Pool RAL, BFC shall promptly pay over to Tax Masters the amount in excess of the Applicable Percentage of the amount so received or applied and until so paid over, the same shall be held by BFC in trust for Tax Masters.

Section 6.2. Indemnification. Immediately upon Tax Masters' demand therefor, BFC shall reimburse and indemnify Tax Masters for and against the Applicable Percentage share of any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses and disbursements of every kind and nature whatsoever that may be imposed upon, incurred by or asserted against Tax Masters, acting pursuant hereto, or in any way relating to or arising out of this Agreement or any Participated Pool RAL or the origination or servicing thereof, or any action taken or omitted by Tax Masters under this Agreement or any Participated Pool RAL, including, without limitation, any amounts payable by Tax Masters pursuant to the RAL Operations Agreement

(pursuant to indemnification provisions thereof or otherwise), and any amounts that Tax Masters shall be required to pay or repay to any statutory representative of any Obligor or Originator Party or to creditors of any such Obligor or Originator Party acting as such statutory representative (all of the foregoing being referred to collectively as "Claims"); provided, however, that BFC shall not be liable under this Section 6.2 for its Applicable Percentage of (i) any obligation of Tax Masters to repurchase Participation Interests in accordance with Sections 4.3 and 4.4, (ii) any out-of-pocket expenses of Tax Masters on account of origination of ordinary and routine servicing of Participated Pool RALs, to the extent duplicative of amounts as to which BFC has paid its Applicable Percentage share pursuant to Article II, (iii) attorneys' fees and related litigation expenses incurred by Tax Masters with respect to Claims (it being understood that each party shall be responsible for its own attorneys' fees and related litigation expenses with respect to Claims) (iv) any Claim attributable to a Participated Pool RAL failing to be an Eligible RAL, (v) any Claim attributable to a breach by Tax Masters of an express obligation of Tax Masters under this Agreement, or (vi) any Claim attributable to the gross negligence or willful misconduct of Tax Masters. Notwithstanding any other provision herein, if BFC breaches any of its obligations hereunder and any such breach results in a claim for indemnification by the RAL Originator against Tax Masters, Tax Masters shall have the right to indemnification from BFC to the extent Tax Masters is required to indemnify the RAL Originator.

Nothing in this Section 6.2 shall be construed to make BFC liable for (i) any portion of any liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses and disbursements imposed upon, incurred by or asserted against Tax Masters or any of its Affiliates relating solely to or arising solely from any RAL other than a Participated Pool RAL or a RAC other than a Pool RAC or (ii) any Claim with respect to which Tax Masters is indemnified by any third party (including, without limitation, Block Tax Services, any Major Franchisee or any other Originator Party). Tax Masters shall remit to BFC the Applicable

Percentage of any amount received by Tax Masters as indemnification from a third party to the extent such indemnification pertains to a Claim for which BFC previously indemnified Tax Masters pursuant to this Section 6.2.

If different Applicable Percentages apply to Pool RALs with respect to which a Claim arises, then (A) to the extent the Claim is identifiable to a particular Pool RAL or to Pool RALs made in a particular Tax Period, the Applicable Percentage applicable to BFC's indemnification obligation with respect to such Claim shall be equal to the Applicable Percentage applicable to such particular Pool RAL or to such Tax Period, as the case may be and (B) otherwise, the Applicable Percentage applicable to BFC's indemnification obligation with respect to such Claim shall be a weighted average of the Applicable Percentages applicable to the Pool RALs or the Tax Period with respect to which such Claim arose.

Section 6.3. Survival. The obligations of BFC under this Article VI shall survive any termination under Section 5.1 and all other events and conditions whatever. If and to the extent that any obligation of BFC under this Article VI is unenforceable for any reason, BFC agrees to make the maximum contribution to the payment and satisfaction of such obligation which is permitted under applicable law.

ARTICLE VII
MISCELLANEOUS

Section 7.1. Customer Lists. To the extent permitted by applicable law, Tax Masters as servicer for the RAL Originator agrees to provide to BFC, or any Affiliate of BFC during the term of this Agreement, within a reasonable time after BFC's (or such Affiliate's) request but not more than twice during any calendar year, a list of all persons (and, their full mailing addresses) to whom the RAL Originator made and Tax Masters purchased Pool RALs or Pool RACs during the most recently ended Tax Period. Such list shall be provided in electronic form and, to the extent reasonably practicable, in a form typical of mailing lists, purchased in the open market. Neither BFC nor its Affiliates shall use, or permit the use of, such list for purposes of soliciting customers for credit related products. BFC and such Affiliates shall take appropriate action by agreement with third parties having access to such list to prohibit such third parties from using such list for purposes of soliciting customers for credit

related products. Tax Masters shall be designated a third-party beneficiary in any such agreement for purposes of enforcing such restricted use of such list.

Section 7.2. Major Franchisees. BFC and Tax Masters agree to negotiate in good faith with each other and with Major Franchisees to enter into an arrangement with such Major Franchisees whereby (i) such Major Franchisees and BFC purchase Participation Interests in Major Franchisee Pool RALs made by the RAL Originator through such Major Franchisees or their subfranchisees and purchased by Tax Masters and (ii) BFC provides financing to such Major Franchisees to enable such Major Franchisees to purchase such Participation Interests. In connection with such arrangement, (i) such Major Franchisees may purchase from Tax Masters up to a 49.999999% undivided ownership interest in the applicable Major Franchisee Pool RALs and (ii) BFC may purchase from Tax Masters percentage ownership interests in such Major Franchisee Pool RALs in a percentage amount equal to 49.999999% minus the percentage ownership interest purchased by such Major Franchisee in such Major Franchisee Pool RALs;

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provided, however, that the percentage ownership interest purchased by BFC in such Major Franchisee Pool RALs shall not exceed 25% and the combined percentage ownership interests purchased by such Major Franchisee and BFC in such Major Franchisee Pool RALs shall not exceed 49.999999%.

Section 7.3. Independent Evaluation. BFC expressly acknowledges (i) that, except as provided in Sections 2.1(a), 4.1 and 4.2, Tax Masters has made no representation or warranty, express or implied, to BFC and no act by Tax Masters heretofore or hereafter taken shall be deemed to constitute any representation or warranty by Tax Masters to BFC; and (ii) that, in connection with its entry into and its performance of its obligations under this Agreement, BFC has made and shall continue to make its own independent investigation of the economic and legal risks associated with the making of RALs and purchase of Participation Interests.

Section 7.4. Notices. All notices required or permitted to be given under this Agreement shall be in writing and shall be given by registered or certified mail, return receipt requested, or by nationally recognized overnight courier, addressed as follows:

If to BFC, to:

Block Financial Corporation
4400 Main Street
Kansas City, Missouri 64111
Attention: Jeffery A. Yabuki

If to Tax Masters, to:

200 Somerset Corporate Blvd.
Bridgewater, New Jersey 08807
Attention: Patrick A. Cozza

Any party may change the address to which it desires notices to be sent by giving the other parties ten (10) days prior notice of any such change. Any notices shall be deemed given upon its receipt by the party to whom the notice is addressed.

Section 7.5. Modification; No Waiver. This Agreement shall not be modified or amended except by an instrument in writing signed by or on behalf of the parties hereto. No waiver of any breach of, or failure to perform or observe, any material term, covenant or agreement contained in this Agreement shall constitute or be construed as a waiver by BFC or Tax Masters of any subsequent breach or failure or of any breach of or failure with respect to any of the other provisions of this Agreement.

Section 7.6. Prior Understandings. This Agreement supersedes all prior oral understandings between the parties hereto relating to the transactions provided herein.

Section 7.7. Governing Law. This Agreement shall be governed by and construed and enforced in accordance with the laws of Delaware, without regard to choice of law rules thereof.

Section 7.8. Counterparts. This Agreement may be executed in as many counterparts as may be deemed necessary and convenient, and by the different parties hereto in separate counterparts, each of which, when so executed, shall be deemed to be an original, but all such counterparts together shall constitute one and the same instrument.

Section 7.9. Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of BFC and Tax Masters and their representative successors and assigns and shall not be assigned by either party hereto without the prior written consent of the other parties hereto, which consent shall not unreasonably be withheld, conditioned or delayed, and any purported assignment without such consent shall be void. HB has ceased its operations and will assign, effective as of December 31, 2002, all of its rights and obligations under the RAL Participation Agreement to Tax Masters.

Section 7.10. Securitizations. Tax Masters will use its reasonable efforts to assist BFC with respect to the negotiation and execution of all instruments and documents and to take all actions that are reasonably necessary, or as BFC may reasonably request, in order to facilitate the sale by BFC of the Participation Interests acquired by BFC pursuant to this Agreement and the assignment by BFC of BFC's rights under this Agreement to an Affiliate of BFC, and the resale of such Participation Interests and the reassignment of such rights by the Affiliate to one or more liquidity providers. Notwithstanding such assignment of its rights, BFC shall remain liable to perform all of its covenants and obligations under this Agreement.

Section 7.11. Headings. The Article, Section and any other headings in this Agreement are for convenience of reference only and shall not be deemed to alter or affect the meaning or interpretation of any of the provisions hereof.

Section 7.12. Confidentiality. Without limitation of any other obligations of confidentiality contained in this Agreement, the RAL Operations Agreement or otherwise arising (but subject to the provisions of Section 7.1), all information, materials and documents heretofore or hereafter furnished to BFC (or to its officers, directors, agents, representatives or advisors) by Tax Masters, by Persons acting on behalf of by Tax Masters or at Tax Masters' direction, or otherwise in connection with this Agreement, either orally, in writing or by inspection, regarding the Obligors, any RAL, any RAC, this Agreement or the RAL Operations Agreement shall be deemed confidential and, except to the extent required by law, shall be kept in strict confidence under appropriate safeguards by BFC and its officers, directors, agents, representatives and advisors.

Section 7.13. Not a Joint Venture. Neither this Agreement nor the transactions contemplated by this Agreement shall be deemed to give rise to a partnership or joint venture between Tax Masters and BFC.

Section 7.14. Tax Masters Not a Tax Preparer. Nothing in this Agreement or the RAL Operations Agreement shall be construed to imply that Tax Masters at any time is in any way responsible for the preparation, filing or contents of any tax return of any Obligor under a Pool RAL, and BFC shall indemnify Tax Masters from and against all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses and disbursements of every kind and nature whatsoever which may be imposed upon, incurred by or asserted against Tax

Masters arising from any claim, allegation or assertion that Tax Masters is or may be in any way responsible for the preparation, filing or contents of any such tax return, or that Tax Masters, by virtue of its participation in the transactions contemplated by this Agreement, is engaged in an activity that subjects Tax Masters to any penalty on account of the negotiation of any tax refund check in violation of the Internal Revenue Code of 1986, as amended.

Section 7.15. Termination of HB as a Party and Assignment of HB's Responsibilities to Tax Masters; Events Prior to Amendment. HB is hereby terminated as a party to this Agreement; provided that HB will assign to Tax

Masters, effective as of December 31, 2002, all of HB's agreements, duties and obligations under the RAL Participation Agreement arising out of events occurring prior to the effective date of this Agreement; provided, however, that such assignment by HB to Tax Masters is subject to Block Services', BFC's and Royalty's rights under the Letter Agreement. Subject to HB's assignment of its rights and obligations to Tax Masters pursuant to the immediately preceding sentence, the parties affirm that they are responsible for performing all of their agreements, duties and obligations under the RAL Participation Agreement arising out of events occurring prior to the effective date of this Agreement, and the provisions of the RAL Participation Agreement shall survive and continue to define the rights and obligations of the parties with respect to such prior events.

Section 7.16. Financial Privacy. Tax Masters and BFC agree to comply with the financial privacy provisions of Section 7.2 of the RAL Operations Agreement.

Section 7.17. Effective Date. The effective date of this Agreement is January 1, 2003.

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IN WITNESS WHEREOF, the parties hereto have caused this Amended and Restated Refund Anticipation Loan Participation Agreement to be executed by their respective officers thereunto duly authorized as of the date set forth above.

BLOCK FINANCIAL CORPORATION

By: /s/ Becky S. Shulman

Name: Becky S. Shulman
Title: Vice President and Treasurer

HOUSEHOLD TAX MASTERS INC.

By: /s/ Patrick A. Cozza

Name: Patrick A. Cozza
Title: President

And solely for purposes of Sections 7.9 and 7.15 of this Amended and Restated Refund Anticipation Loan Participation Agreement:

HOUSEHOLD BANK, f.s.b.

By: /s/ Patrick A. Cozza

Name: Patrick A. Cozza
Title: Senior Vice President

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Exhibit A

CALCULATION OF INITIAL PURCHASE PRICE

(SECTION 2.3)

Formula

(A) the sum, for each Pool RAL corresponding to such Participation interest of the product of (i) the Applicable Percentage applicable to such Pool RAL, times (ii) the Principal Amount of such Pool RAL, plus

(B) the sum, for each Pool RAL corresponding to such Participation Interest, of the product of (i) the Applicable Percentage applicable to such Pool RAL, times (ii) the License Fees, if any, paid or payable by the RAL Originator in connection with such Pool RAL, plus

(C) the sum, for each Pool RAL corresponding to such Participation Interest of the product of (i) the Periodic Servicing Fee Percentage applicable to such Pool RAL, times (ii) the Principal Amount of such Pool RAL.

Example

Assumptions:

Pre-1999 Tax Period	
Aggregate Principal Amount of Pool RALs for Participation Interest	\$1,800,000,000
License Fees for Pool RALs for Participation Interest	16,800,000
Periodic Servicing Fee Percentage (calculated pursuant to Section 2.4)	.533%
Applicable Percentage for all Pool RALs	40%

Calculation:

(A)	(40% x \$1,800,000,000)	\$ 720,000,000
Plus (B)	(40% x \$16,800,000)	6,720,000
Plus (C)	(.533% x \$1,800,000,000)	9,594,000

=	Initial Purchase Price	\$ 736,314,000
		=====

Exhibit B

ALLOCATION OF QUALIFIED EXPENSES

(DEFINITION OF QUALIFIED EXPENSES; SECTION 2.4(a)(i))

Formula

(x) all permitted expenses (as described in the definition of "Qualified Expenses") of Tax Masters and its Affiliates for RALs and RACs of all types (whether or not Pool RALs or Pool RACs) during a Budget Period shall be aggregated.

(y) the result under clause (x) above shall be divided by the total number of RALs and RACs of all types made by the RAL Originator and its Affiliates and purchased by Tax Masters during the Tax Period corresponding to the Budget Period (except that RACs shall not be part of this denominator with respect to a Tax Period that is not a RAC Service Period).

(z) the result under clause (y) above shall be multiplied by the number of RALs and RACs made by RAL Originator and its Affiliates and purchased by Tax Masters during such Tax Period that are Participated Pool RALs and Pool RACs (and such result shall be deemed the Qualified Expenses allocable to Participated Pool RALs and Pool RACs for such Budget Period).

Example

Assumptions:

Permitted expenses of all types for RALs and RACs of all types	\$25,000,000
Total Number of RALs of all types	2,646,000
Total Number of RACs of all types (post-1998 Tax Period)	1,460,000
Total Number of Participated Pool RALs	2,097,000
Total Number of Pool RACs (post-1998 Tax Period)	1,000,000

Calculation:

	Pre-1999 -----	Post-1998 -----
(x) Qualified Expenses	\$25,000,000	\$25,000,000
/ (y) Total number of RALs and RACs (if applicable) of all types	2,646,000	4,106,000
x (z) Total number of Participated Pool RALs and Pool RACs	2,097,000	3,097,000
	-----	-----
= Qualified Expenses Allocated to Participated Pool RALs and Pool RACs	\$19,812,925 =====	\$18,856,551 =====

Exhibit C

CALCULATION OF INITIAL PERIODIC SERVICING FEE PERCENTAGE

(SECTION 2.4(a)(iii))

Formula

(A) Tax Masters' estimate of the aggregate Required Servicing Compensation for the Budget Period relating to the Applicable Tax Period, divided by

(B) Tax Masters' estimate of the Principal Amount of Participated Pool RALs to be made in such Tax Period

Example

Assumptions:

Pre-1999 Tax Period

Estimated Aggregate Required Servicing Compensation	\$9,602,770
Estimated Principal Amount of Participated Pool RALs	\$1,800,000,000

Calculation:

(A)	\$ 9,602,770
/ (B)	\$1,800,000,000

= Initial Periodic Servicing Fee Percentage	.533% =====

Exhibit D

CALCULATION OF REQUIRED SERVICING FEE COMPENSATION

(SECTION 2.4(A)(IV))

Formula

(A) the sum, for each of the categories of Pool RALs (a category consisting of all Pool RALs to which the same Applicable Percentage applies pursuant to this Agreement), of the product of (i) the Applicable Percentage for such category for the relevant Tax Period, times (ii) \$2.00 (for the Tax Period beginning on January 1, 1997, and for Tax Periods thereafter \$2.00 adjusted by the Consumer Price Index for the Applicable Tax Period), times (iii) the number of Participated Pool RALs of such category made by the RAL Originator during the relevant Tax Period, plus

(B) the sum, for each of the categories of Pool RALs, of the product of (i) the Applicable Percentage for such category for the relevant Tax Period, times (ii) Qualified Expenses allocable to Participated Pool RALs and Pool RACs during the Budget Period, times (iii) a fraction, the numerator of which is the aggregate Principal Amount of such category of Pool RALs made during such Budget Period and the denominator of which is the aggregate Principal Amount of all Pool RALs made during such Budget Period.

Example for Pre-RAC Service Period

Assumptions:

Applicable Percentage for all Pool RALs*	40%
Number of Participated Pool RALs*	2,097,000
Qualified Expenses Allocable to Participated Pool RALs*	\$19,812,925

By definition, Pool RALs during a Tax Period that is not a RAC Service Period includes only Corporate Pool RALs

Calculation:

(A) (40% times \$2.00 times 2,097,000 RALs) =	\$1,677,600
plus (B) (40% times \$19,812,925) =	7,925,170

= Required Servicing Fee Compensation	\$9,602,770
	=====

Example for Post-RAC Service Period

Assumptions:

Applicable Percentage for Corporate Pool RALs	49.999999%
Applicable Percentage for Major Franchisee Pool RALs	25%
Number of Participated Corporate Pool RALs	2,097,000
Number of Participated Major Franchisee Pool RALs	500,000
Qualified Expenses Allocable to Participated Pool RALs and Pool RACs	\$18,856,551

Calculation:

(A) (49.999999% times \$2.00 times 2,097,000 Corporate Pool RALs) =	\$ 2,097,000
(25% times \$2.00 times 500,000 Major Franchisee Pool RALs) =	250,000

subtotal	\$ 2,347,000

plus (B) (49.999999% times \$18,856,551) times (2,097,000/2,597,000) =	\$ 7,612,939
(25% times \$18,856,551) times (500,000/2,597,000)	907,617

subtotal	\$ 8,520,556

= Required Servicing Fee Compensation	\$10,867,556
	=====

PERIODIC ADJUSTMENT OF SERVICING FEE PERCENTAGE

(SECTION 2.4 (b))

Assumptions:

Qualified Expenses Allocable to Participated Pool RALs and Pool RACs for pre-1999 Tax Period remained the same at \$19,812,925, but the number of Estimated Pool RALs increased to 2,150,000 from 2,097,000 Pool RALs and the aggregate principal amount of Pool RALs increased to \$1,850,000,000 from \$1,800,000,000.

Calculation:

((40% Applicable Percentage x \$2.00 x 2,150,000 revised number of Pool RALs) plus (40% Applicable Percentage x \$19,812,925 Qualified Expenses allocable to Participated Pool RALs)) divided by \$1,850,000,000 = .521% Adjusted Servicing Fee Percentage

INTERIM SERVICING COMPENSATION ADJUSTMENT

(SECTION 2.4 (c) (i))

Assumptions:

Qualified Expenses Allocable to Participated Pool RALs and Pool RACs for pre-1999 Tax Period remained the same at \$19,812,925, but the number of Estimated Pool RALs increased to 2,150,000 from 2,097,000 Pool RALs and the aggregate principal amount of Pool RALs increased to \$1,850,000,000 from \$1,800,000,000.

Calculation:

Required Servicing Compensation ((40% Applicable Percentage x \$2.00 x 2,150,000 revised number of Pool RALs) + (40% Applicable Percentage x \$19,812,925 Qualified Expenses allocable to Participated Pool RALs))	\$9,645,170
Periodic Servicing Compensation (.533% Periodic Servicing Fee Percentage x \$1,850,000,000 aggregate Principal Amount of Participated Pool RALs)	9,860,500

Adjustment (payable to BFC)	\$ (215,330)
	=====

FINAL SERVICING COMPENSATION ADJUSTMENT

(SECTION 2.4 (c) (ii))

Assumptions:

Qualified Expenses Allocable to Participated Pool RALs and Pool RACs for pre-1999 Tax Period increased from \$19,812,925 to \$20,000,000, but the number of Estimated Pool RALs remained unchanged from interim adjustment at 2,150,000 Pool RALs.

Calculation:

Required Servicing Compensation ((40% Applicable Percentage x \$2.00 x 2,150,000 number of Pool RALs) + (40% Applicable Percentage x \$20,000,000 Qualified Expenses allocable to Participated Pool RALs))	\$9,720,000
Periodic Servicing Compensation ((.533% Periodic Servicing Fee Percentage x \$1,850,000,000 aggregate Principal Amount of Participated Pool RALs) + \$(215,300) Interim Adjustment)	9,645,170 -----
Adjustment (payable to Tax Masters)	\$ 74,830 =====

WAIVER OF RIGHTS UNDER
AMENDED AND RESTATED REFUND ANTICIPATION
LOAN PARTICIPATION AGREEMENT

This Waiver of Rights Under Amended and Restated Refund Anticipation Loan Participation Agreement (this "Waiver"), dated as of January 6, 2003, is made by and among Block Financial Corporation ("BFC"), Household Tax Masters Inc. ("Tax Masters"), and H & R Block Services, Inc. ("Block Services").

RECITALS

- A. BFC, Tax Masters and Household Bank, f.s.b. ("HB") have entered into that certain Amended and Restated Refund Anticipation Loan Participation Agreement, dated as of January 6, 2003 (the "Amended and Restated Participation Agreement"). Capitalized terms that are not defined herein shall have the meanings assigned to such terms in the Amended and Restated Participation Agreement.
- B. The Amended and Restated Participation Agreement amended and restated the predecessor agreement to, among other things, provide for Imperial Capital Bank, a California state chartered commercial bank ("ICB"), to replace HB as the originator of RALs and issuer of RACs.
- C. Subject to the terms and conditions of the Amended and Restated Participation Agreement, BFC has the right to purchase Participation Interests in RALs from Tax Masters.
- D. For the 2003 Tax Period, Tax Masters desires to fund its purchases of Participation Interests in RALs from ICB pursuant to a Revolving Purchase Agreement, dated as of January 3, 2003 (the "Purchase Agreement").
- E. Tax Masters and BFC considered having BFC fund its purchases of Participation Interests in RALs by becoming a party to the Purchase Agreement.
- F. BFC decided not to become a party to the Purchase Agreement, and instead, BFC and Tax Masters agreed that BFC would waive its right to purchase any Participation Interests under the Amended and Restated Participation Agreement (and forgo the income associated with such Participation Interests) solely with respect to Pool RALs originated during the period from January 1, 2003 to April 30, 2003 (the "2003 Waiver Period"), in return for certain payments by Tax Masters to BFC as provided for in this Waiver.

AGREEMENT

NOW, THEREFORE, in consideration of the forgoing, the covenants and agreements of the parties hereto and other good and valuable consideration, the receipt

and sufficiency of which are hereby acknowledged, the parties hereby agree as follows:

Section 1. Waivers and Waiver Payment.

(a) BFC hereby:

(i) waives its right to purchase from Tax Masters, solely with respect to the 2003 Waiver Period, Participation Interests under the Amended and Restated Participation Agreement, whether pursuant to Section 2.1 thereof or otherwise, and the parties hereby agree that the Applicable Percentage under the Amended and Restated Participation Agreement with respect to the 2003 Waiver Period for both Corporate Pool RALs and Major Franchisee Pool RALs shall be 0%;

(ii) waives its rights to indemnification, solely for the 2003 Tax Period, pursuant to paragraph 1(B) (regarding RALs made to Iowa residents) of that certain letter agreement, dated November 11, 2002 (the "ICB Consent Letter"), by and among H&R Block Services, Inc.,

H&R Block Tax Services, Inc., HRB Royalty, Inc., BFC, Tax Masters, HB, Beneficial Franchise Company, Inc., and Household Finance Corporation;

(iii) waives all rights pursuant to Section 2.4(g) and Section 3.3(c) of the Amended and Restated Participation Agreement to audit Tax Masters' servicing expenses for calendar year 2003; and

(iv) waives its rights, solely for the 2003 Tax Period, to collect a licensing fee with respect to electronic refund advances (ERAs"); and

(b) Block Services hereby waives its rights, solely for the 2003 Tax Period, to collect the License Fee (as such term is defined in the RAL Operations Agreement) payable pursuant to Section 5.4 of the RAL Operations Agreement solely with respect to RALs made at Block Offices other than Corporate Franchise offices;

all in exchange for the payment by Tax Masters to BFC of an amount equal to \$133,000,000.00 (the "Waiver Payment"). Tax Masters agrees to deposit on January 7, 2003, the Waiver Payment with Bank One, N.A. (the "Escrow Agent") pursuant to an Escrow Agreement (the "Escrow Agreement"), dated as of January 6, 2003, to be executed by BFC, Tax Masters and the Escrow Agent, substantially in the form attached hereto as Exhibit A. The Waiver Payment shall be paid to BFC by the Escrow Agent in installments on each Friday during the months of January, February, March and April, 2003, in accordance with Schedule 1 attached hereto but subject to the terms and conditions of Section 4 hereof. The fees and expenses of the Escrow Agent shall be paid as set forth in the Escrow Agreement. Interest and other investment income shall be paid equally to BFC and Tax Masters; provided, however, that in the event any installment of the Waiver Payment is reduced as described in paragraph (b) of Section 4 below, and there is a final determination in accordance with

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the procedures set forth in paragraph (c) of Section 4 below that such installment should not have been reduced, then all interest and other investment income attributable to the amount by which such installment was reduced shall be paid solely to BFC.

Section 2. True-Up for Delinquencies.

(a) On or before January 15, 2004 (the "True-Up Date"), Tax Masters and BFC shall calculate the following amounts with respect to the Pool RALs for the 2003 Tax Period:

(i) "2003 Delinquent Pool RALs" shall mean all Pool RALs that were originated during the 2003 Tax Period and that appear in the L05 Report (Company Owned Unpaid Loan Analysis) and the L35 Report (Major Franchisee Unpaid Loan Analysis) dated December 31, 2003.

(ii) "Actual Delinquency Percentage" shall be an amount, computed as a decimal carried to eight places, equal to the December 31 Delinquency Amount divided by the Aggregate RAL Principal Balance;

(iii) "Aggregate RAL Principal Balance" shall mean the aggregate principal amount of all Pool RALs that were originated during the 2003 Tax Period;

(iv) "Assumed Future Recovery Percentage" is a fixed amount equal to 0.28;

(v) "Base Delinquency Percentage" is a fixed amount equal to 0.0055;

(vi) "BFC Recovery Percentage" shall be an amount, computed as a decimal carried to five places, equal to the quotient of (A) the product of the Actual Delinquency Percentage multiplied by \$4,986,000,000, divided by (B) the December 31 Delinquency Amount.

(vii) "December 31 Delinquency Amount" with respect to 2003 Delinquent Pool RALS shall be an amount equal to the sum of the

"Dollars Unpaid" amounts that appear in the L05 Report (Company Owned Unpaid Loan Analysis) and the L35 Report (Major Franchise Unpaid Loan Analysis) dated December 31, 2003.

Tax Masters shall provide BFC with all information reasonably requested by BFC to calculate the foregoing amounts.

(b) If the Actual Delinquency Percentage is less than 0.0100:

(i) but greater than the Base Delinquency Percentage, then on the True-Up Date, BFC shall remit to Tax Masters an amount equal to the

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product of \$4,986,000,000 multiplied by X, where X is an amount equal to the Actual Delinquency Percentage minus the Base Delinquency Percentage; or

(ii) and less than the Base Delinquency Percentage, then on the True-Up Date, Tax Masters shall remit to BFC an amount equal to the product of \$4,986,000,000 multiplied by X, where X is an amount equal to the Base Delinquency Percentage minus the Actual Delinquency Percentage; and

(iii) on the True-Up Date, Tax Masters shall remit to BFC an amount equal to the product of (A) the Actual Delinquency Percentage, multiplied by (B) \$4,986,000,000, multiplied by (C) the Assumed Future Recovery Percentage.

All of the foregoing payments due among Tax Masters and BFC shall be set-off and paid on a net basis. All payments shall be made by wire transfer on the True-Up Date.

(c) If the Actual Delinquency Percentage is equal to or greater than 0.0100, then:

(i) on the True-Up Date, BFC shall pay to Tax Masters an amount equal to the product of \$4,986,000,000 multiplied by X, where X is an amount equal to the Actual Delinquency Percentage minus the Base Delinquency Percentage; and

(ii) beginning on January 1, 2004 and continuing through June 30, 2006 (whether or not the underlying RAL Program agreements remain in force) and so long thereafter as Tax Masters (or any successor servicer) is servicing and collecting 2003 Delinquent Pool RALs, Tax Masters (or any successor servicer) shall pay to BFC, as subsequent recoveries occur on 2003 Delinquent Pool RALs, the BFC Recovery Percentage of all such recoveries. The parties expressly agree that BFC shall be entitled to the BFC Recovery Percentage of recoveries on both delinquent Corporate Pool RALs and delinquent Major Franchisee Pool RALs. Tax Masters (and any successor servicer) agrees to exercise collection procedures with respect to the 2003 Delinquent Pool RALs (and the BFC Recovery Percentage thereof) that are substantially consistent with its collection practices and procedures in effect from time to time. If after June 30, 2006, Tax Masters ceases to be the servicer of 2003 Delinquent Pool RALs and does not arrange for a successor servicer, then BFC shall have the right to appoint a successor servicer to service and collect 2003 Delinquent Pool RALs. Tax Masters agrees to cooperate with and assist any successor servicer and to transfer to such successor servicer all its records, files and data regarding the 2003 Delinquent Pool RALs.

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(d) BFC is hereby authorized (in addition to any other rights it may have) at any time after the True-Up Date to set off, appropriate and apply (without presentment, demand, protest or other notice, which are hereby expressly waived) any amount owing by Tax Masters pursuant to this Section 2 against any amounts held or owing by BFC to, or for the account of, Tax

Masters pursuant to any agreement in effect with respect to RAL Program during the 2004 tax year. Tax Masters is hereby authorized (in addition to any other rights it may have) at any time after the True-Up Date to set off, appropriate and apply (without presentment, demand, protest or other notice, which are hereby expressly waived) any amount owing by BFC pursuant to this Section 2 against any amounts held or owing by Tax Masters to, or for the account of, BFC pursuant to any agreement in effect with respect to RAL Program during the 2004 tax year.

Section 3. 2002 Servicing Fee Audit. With respect to calendar year 2002, notwithstanding any provision of the Amended and Restated Participation Agreement to the contrary, BFC may, at its sole option, either (a) exercise its rights pursuant to Section 2.4(g) and Section 3.3(c) of the Amended and Restated Participation Agreement and under this Section 3 to engage accountants to audit Tax Masters' servicing expenses for the calendar year 2002, or (b) by written notice to Tax Masters, waive such audit right in exchange for a payment by Tax Masters of \$1,000,000 payable by wire transfer on the fifth Business Day following delivery of such written notice.

Section 4. Material Adverse Changes. The Escrow Agreement shall include the following terms and conditions to the disbursement of the Waiver Payment:

In the event that:

(i) any Block Company (as that term is defined in the RAL Operations Agreement) is in material default in the performance of its obligations or duties under the RAL Operations Agreement and such default was not caused by the prior material default of any Household Company (as that term is defined in the RAL Operations Agreement);

(ii) the IRS and/or any state taxing authority withdraws or materially changes the implementing revenue procedures governing RALs or RACs or the electronic filing of tax returns;

(iii) the operation of the RAL Program (as that term is defined in the RAL Operations Agreement) or the electronic filing of tax returns is made infeasible or impractical by any legal or regulatory determination, enactment or interpretation;

(iv) any external act or event beyond the reasonable control of the parties hereto occurs (excluding, however, basic market changes, such as an increase in competition or a decrease in demand for the RAL product); or

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(v) the operation of the RAL Program is enjoined or judicially determined to be prohibited either nationally or in any State, territory or political subdivision thereof,

and any such event is reasonably likely to have a material adverse impact on the continued operation of the RAL Program or the expected financial performance of the RAL Program during the 2003 Tax Period (based upon the assumptions and methodologies that were employed by the parties hereto in establishing the aggregate amount of the Waiver Payment) and such event did not occur as a result of the substitution of ICB as the RAL originator, then:

(a) Tax Masters may give written notice to BFC and the Escrow Agent of the occurrence of such event and Tax Masters' reasonable estimate of the impact such event will have on the expected financial performance of the RAL Program;

(b) Tax Masters may give written notice to BFC and the Escrow Agent of the percentage reduction in the installments of the Waiver Payment payable to BFC pursuant hereto after the occurrence of such event, which percentage reduction will be determined by Tax Masters, in its reasonable discretion after consultation with BFC, and installments of the Waiver Payment payable to BFC after the occurrence of such event shall be reduced by such percentage reduction, subject to adjustment of such payments between the parties following the recomputation of the Waiver Payment in accordance with paragraph (c) below. If the event is resolved to the mutual satisfaction of BFC and Tax Masters, then the amount of the

installment payments shall be automatically restored to 100% of the Schedule 1 amount;

(c) The parties will negotiate in good faith to recompute the amount of the Waiver Payment and the true-up payments that would have been paid if the parties had been aware of such event as of the date of this Agreement, which recomputation shall be based upon the assumptions and methodologies that were employed by the parties hereto in establishing the aggregate amount of the Waiver Payment and the true-up payments. If prior to February 1, 2003, Tax Masters does not give any written notice to the Escrow Agent pursuant to paragraph (b) above of a percentage reduction in the installments of the Waiver Payment, then the parties agree that all January installments of the Waiver Payment shall be final and any recomputation of the Waiver Payment and the true-up payments pursuant to this paragraph (c) (and all adjustments and settlements related thereto) shall be made only on a prospective basis. If the parties are unable to reach an agreement with respect to the recomputed amount of the Waiver Payment and the true-up payments as provided in the preceding sentence within five (5) Business Days after the occurrence of such event, the dispute over such recomputation shall be resolved by binding arbitration administered by the American Arbitration Association under its Commercial Arbitration Rules and the provisions of paragraph 3 of the ICB Consent Letter shall apply with respect to such arbitration.

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(d) The parties will use all reasonable efforts to mitigate the impact of any such event on the continued operation and expected performance of the RAL Program.

Section 5. Pool RAC Float Fees. Notwithstanding Tax Masters' waiver of the servicing fees pursuant to Section 8 hereof, on a date selected by Tax Masters, such date being not later than 30 days after the end of the 2003 Tax Period, Tax Masters shall pay to BFC an amount equal to the product of \$.50 times the number of Pool RACs (other than Pool RACs issued through a Block Office owned by a Major Franchisee or a subfranchisee of a Major Franchisee) issued during the 2003 Tax Period ("Pool RAC Float Fee").

Section 6. D-RALs. Notwithstanding any other agreement between the parties to the contrary, the parties hereby acknowledge that BFC shall not owe any amount, or be required to make any payment to, any Person on account of or with respect to the 2003 discounted RALs program (the "D-RAL Program").

Section 7. Recoveries of Prior Year Delinquent RALs. Notwithstanding any other provision of this Waiver to the contrary, BFC shall be entitled to receive all amounts otherwise due and owing to BFC under the Amended and Restated Participation Agreement from time to time on account of recoveries in respect of Delinquent Pool RALs originated prior to the 2003 Tax Period.

Section 8. Waiver of Servicing Fee. Tax Masters hereby waives its right, solely with respect to the 2003 Tax Period, to receive the Required Servicing Compensation contemplated by Section 2.4 of the Amended and Restated Participation Agreement.

Section 9. Purchase Agreement. BFC will use reasonable efforts to assist Tax Masters, at Tax Masters' expense, with respect to the negotiation and execution of the Purchase Agreement and will execute and deliver all instruments and documents and take all actions that are reasonably necessary and as Tax Masters may reasonably request in order to complete the transactions contemplated by the Purchase Agreement. As soon as possible, Tax Masters shall deliver to BFC copies of the Purchase Agreement and the Amended and Restated Sale and Servicing Agreement contemplated thereby. BFC agrees that it shall hold such agreements in accordance with the confidentiality provisions set forth in Section 7.12 of the Amended and Restated Participation Agreement.

Section 10. Other Information. Notwithstanding any other provision of this Waiver to the contrary, BFC shall be entitled to receive from Tax Masters all reports, data and other information which BFC would have otherwise been entitled to receive under the Amended and Restated Participation Agreement (whether pursuant to Section 2.4 or Section 3.3 of the Amended and Restated Participation Agreement or otherwise) as if (a) BFC actually purchased the Participation Interest with respect to Pool RALs originated during the 2003 Waiver Period, (b) the Applicable Percentage with respect to Corporate Pool RALs for the 2003

Waiver Period was 49.999999%, and (c) the Applicable Percentage with respect to Major Franchise Pool RALs for the 2003 Waiver

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Period was 25%. Tax Masters agrees to provide such reports consistent with past practices on a "checks cleared" basis.

Section 11. Effect. Except as specifically waived or amended herein, the Amended and Restated Participation Agreement shall remain in full force and effect and is hereby ratified and confirmed by BFC and Tax Masters. In addition, the parties hereby acknowledge that the RAL Operations Agreement and all other RAL Program agreements and instruments remain in full force and effect.

Section 12. Confidentiality. BFC and Tax Masters shall not make any disclosure of the existence or contents of this Waiver, except as required by applicable law, generally accepted accounting principles or prudent business practices, in accordance with the advice of their counsel; provided, that the parties agree to consult with each other, to the extent reasonably practical, prior to making any such required disclosure; provided, further, that each party agrees to give prior written notice (including a copy of the proposed written disclosure and proposed talking points related to any press release) to the other party before issuing any press release or filing any Form 8-K that discloses the existence or contents of this Waiver; and provided, further, that Tax Masters may deliver a copy of this Waiver to the purchaser under the Revolving Purchase Agreement.

Section 13. Legal Fees and Expenses. In the event of a dispute, proceeding or litigation among the parties over this Waiver or the parties rights hereunder, including any proceedings pursuant to paragraph (c) of Section 4 hereof, the prevailing party in such proceeding or litigation shall be entitled to recover its reasonable legal fees and expenses incurred in such proceeding or litigation from the losing party.

Section 14. Counterparts. This Waiver may be executed in any number of counterparts and by any combination of the parties hereto in separate counterparts, each of which counterparts shall constitute one and the same agreement.

Section 15. Governing Law. This Waiver shall be governed by and construed and enforced in accordance with the internal Laws of the State of Delaware without regard to the principles of conflicts of law thereof.

Section 16. Successors and Assigns. Except as otherwise provided herein, the provisions hereof shall inure to the benefit of, and be binding upon, the successors, assigns, heirs, executors and administrators of the parties hereto.

Section 17. Material Default. A material default by any party in the performance of its obligations or duties under this Waiver shall constitute a material default of such party's obligations under the Amended and Restated Participation Agreement and the RAL Operations Agreement.

[SIGNATURE PAGE TO FOLLOW]

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IN WITNESS WHEREOF, the parties hereto have caused this Waiver of Rights Under Amended and Restated Refund Anticipation Loan Participation Agreement to be executed by their respective officers thereunto duly authorized as of the date set forth above.

BLOCK FINANCIAL CORPORATION

By: /s/ Becky S. Shulman

Name: Becky S. Shulman

Title: Vice President and Treasurer

HOUSEHOLD TAX MASTERS INC.

By: /s/ Patrick A. Cozza

Name: Patrick A. Cozza
Title: President

H & R BLOCK SERVICES, INC.

By: /s/ Jeffery W. Yabuki

Name: Jeffery W. Yabuki
Title: President

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Schedule 1

WAIVER PAYMENT
SCHEDULED DISTRIBUTIONS UNDER THE ESCROW AGREEMENT

Week ----	Friday -----	Payment -----
0	January 3, 2003	\$ 0
1	January 10, 2003	0
2	January 17, 2003	2,221,000
3	January 24, 2003	9,697,000
4	January 31, 2003	18,030,000
5	February 7, 2003	46,861,000
6	February 14, 2003	24,427,000
7	February 21, 2003	8,865,000
8	February 28, 2003	7,477,000
9	March 7, 2003	4,108,000
10	March 14, 2003	2,783,000
11	March 21, 2003	1,979,000
12	March 28, 2003	2,053,000
13	April 4, 2003	1,222,000
14	April 11, 2003	1,199,000
15	April 18, 2003	1,466,000
16	April 25, 2003	612,000

	Total	\$133,000,000 =====

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EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT ("Agreement") is entered into as of December 2, 2002, by and between HRB Management, Inc., a Missouri corporation (the "Company"), and Tammy S. Serati ("Executive").

ARTICLE ONE

EMPLOYMENT

1.01 - Agreement as to Employment. Effective December 2, 2002 (the "Employment Date"), the Company hereby employs Executive to serve in the capacity set forth in Section 1.02, and Executive hereby accepts such employment by the Company, subject to the terms of this Agreement. The Company reserves the right, in its sole discretion, to change the title of Executive at any time.

1.02 - Duties.

(a) Executive is employed by the Company to serve as its Senior Vice President, Human Resources, and, conditioned on election by the Board of Directors of H&R Block, Inc. ("Block"), the Senior Vice President, Human Resources of Block, a Missouri corporation and the indirect parent corporation of the Company, subject to the authority and direction of the Board of Directors of Block and the Chief Executive Officer of Block. Subject to the foregoing, Executive will have such authority and responsibility and duties as stated in the job description for the position of Senior Vice President, Human Resources, which has been provided to Executive on or before the Employment Date. The Company reserves the right to modify, delete, add, or otherwise change Executive's job responsibilities and job description, in its sole discretion, at any time. Executive will perform such other duties, which may be beyond the scope of the job description, as are assigned to Executive from time to time.

(b) So long as Executive is employed under this Agreement, Executive agrees to devote Executive's full business time and efforts exclusively on behalf of the Company and to competently and diligently discharge Executive's duties hereunder. Executive will not be prohibited from engaging in such personal, charitable, or other nonemployment activities that do not interfere with Executive's full-time employment hereunder and that do not violate the other provisions of this Agreement or the H&R Block, Inc. Code of Business Ethics & Conduct, which Executive acknowledges having read and understood. Executive will comply fully with all reasonable policies of the Company as are from time to time in effect and applicable to Executive's position. Executive understands that the business of Block, the Company, and/or any other direct or indirect subsidiary of Block (each such other subsidiary an "Affiliate") may be subject to governmental regulation, some of which may require Executive to submit to background investigation as a condition of Block, the Company, and/or Affiliates'

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participation in certain activities subject to such regulation. If Executive, Block, the Company, or Affiliates are unable to participate, in whole or in part, in any such activity as the result of any action or inaction on the part of Executive, then this Agreement and Executive's employment hereunder may be terminated by the Company without notice.

1.03 - Compensation.

(a) Signing Bonus. Subject to approval by the Compensation Committee of the Board of Directors of Block and Board of Directors of Block itself, the Company shall pay to Executive a \$30,000 bonus within 30 days after the Employment Date. If Executive voluntarily terminates Executive's employment with the Company within 13 months after the Employment Date, Executive will reimburse the Company the \$30,000 on or before the 30th day after the effective date of such termination.

(b) Base Salary. The Company will pay to Executive a gross salary at an annual rate of \$220,000 ("Base Salary"), payable semimonthly or at any other pay periods as the Company may use for its other executive-level employees. The

Base Salary will be reviewed for adjustment no less often than annually during the term of Executive's employment hereunder and, if adjusted, such adjusted amount will become the "Base Salary" for purposes of this Agreement.

(c) Short-Term Incentive Compensation. Executive shall participate in the H&R Block Short-Term Incentive Plan and the discretionary short-term incentive program. Under such Plan and program, Executive shall have an aggregate target bonus for fiscal year 2003 of \$88,000 and an opportunity to earn 200% of such target bonus. The payment of the actual award under such Plan and program shall be based upon such performance criteria which shall be determined by the Compensation Committee of Block. Under such Plan and program, for fiscal year 2003 only, Executive's actual incentive compensation shall be prorated based upon the number of months during such year that Executive is actually employed by the Company, provided that Executive must remain employed through April 30, 2003 to receive any payments under the Plan and program. Such incentive compensation shall be paid to Executive following the completion of fiscal year 2003 when the same is paid to other senior executives of the Company.

(d) Stock Options. As authorized under the H&R Block 1993 Long-Term Executive Compensation Plan, as amended (the "1993 Plan"), Executive shall be granted on the Employment Date a stock option under the 1993 Plan to purchase 20,000 shares of Block's common stock at an option price per share equal to its closing price on the New York Stock Exchange on the date of grant, such option to expire on the tenth anniversary of the date of grant; to vest and become exercisable as to one-third (6,666) of the shares covered thereby on the second anniversary of the date of grant, as to an additional one-third (6,667) of such shares on the third anniversary of the date of grant, and as to the remaining one-third (6,667) of the shares on the fourth anniversary of the date of grant; to be an incentive stock option for the maximum number of shares permitted by Internal Revenue Code Section 422 and the regulations promulgated thereunder; and to otherwise be a nonqualified stock

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option.

(e) Restricted Stock. Subject to approval by the Compensation Committee of the Board of Directors of Block and Board of Directors of Block itself, Executive shall be awarded promptly after the Employment Date, 1,000 Restricted Shares of Block's common stock under the 1993 Plan. One-third of the 1,000 shares shall vest (i.e., the restrictions on such shares shall terminate), respectively, on each of the first three anniversaries following such employment commencement date (in increments of 333, 333 and 334 whole shares). Prior to the time such Restricted Shares are so vested, (i) such Restricted Shares shall be nontransferable, and (ii) Executive shall be entitled to receive any cash dividends payable with respect to unvested Restricted Shares and vote such unvested Restricted Shares at any meeting of shareholders of Block.

1.04 - Relocation Benefits.

(a) The Company will reimburse Executive for reasonable packing, shipping, transportation costs and other expenses incurred by Executive in relocating Executive, Executive's family and personal property to the Greater Kansas City Area, in accordance with the H&R Block Executive Relocation Program.

(b) To the extent that Executive incurs taxable income related to any relocation benefits paid pursuant to this Agreement, the Company will pay to Executive such additional amount as is necessary to "gross up" such benefits and cover the anticipated income tax liability resulting from such taxable income.

1.05 - Business Expenses. The Company will promptly pay directly, or reimburse Executive for, all business expenses, to the extent such expenses are paid or incurred by Executive during the term hereof in accordance with the Company's policy in effect from time to time and to the extent such expenses are reasonable and necessary to the conduct by Executive of the Company's business.

1.06 - Fringe Benefits. During the term of Executive's employment hereunder, and subject to the discretionary authority given to the applicable benefit plan administrators, the Company will make available to Executive such insurance, sick leave, deferred compensation, short-term incentive compensation, bonuses, stock options, retirement, vacation, and other like benefits as are approved and provided from time to time to the other executive-level employees

of the Company or Affiliates.

1.07 - Termination of Employment.

(a) Without Notice. The Company may, at any time, in its sole discretion, terminate this Agreement and the employment of Executive without notice in the event of:

(i) Executive's misconduct that interferes with or prejudices the proper conduct of the business of Block, the Company or any Affiliate or which

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may reasonably result in harm to the reputation of Block, the Company and/or any Affiliate; or

(ii) Executive's commission of an act materially and demonstrably detrimental to the good will of Block or any subsidiary of Block, which act constitutes gross negligence or willful misconduct by Executive in the performance of Executive's material duties to Block or such subsidiary; or

(iii) Executive's commission of any act of dishonesty or breach of trust resulting or intending to result in material personal gain or enrichment of Executive at the expense of Block or any subsidiary of Block; or

(iv) Executive's violation of Article Two or Three of this Agreement; or

(v) Executive's conviction of a misdemeanor (involving an act of moral turpitude) or a felony; or

(vi) Executive's disobedience, insubordination or failure to discharge Executive's duties; or

(vii) Executive's suspension by the Internal Revenue Service from participation in the Electronic Filing Program; or

(viii) The inability of Executive, Block, the Company, and/or an Affiliate to participate, in whole or in part, in any activity subject to governmental regulation as the result of any action or inaction on the part of Executive, as described in Section 1.02(b); or

(ix) Executive's death or total and permanent disability. The term "total and permanent disability" will have the meaning ascribed thereto under any long-term disability plan maintained by the Company or Block for executives of the Company.

(b) With Notice. Either party may terminate this Agreement for any reason, or no reason, by providing not less than 45 days' prior written notice of such termination to the other party, and, if such notice is properly given, this Agreement and Executive's employment hereunder will terminate as of the close of business on the 45th day after such notice is deemed to have been given or such later date as is specified in such notice.

(c) Termination Due to a Change of Control.

(i) If Executive terminates Executive's employment under this Agreement during the 180-day period following the date of the occurrence of a "Change of Control" of Block then, upon any such termination of Executive's employment and conditioned on Executive's execution of an agreement with the

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Company under which Executive releases all known and potential claims against Block, the Company, and Affiliates, the Company will provide Executive with Executive's election (the "Change of Control Election") of the same level of severance compensation and benefits as would be provided

under the H&R Block Severance Plan (the "Severance Plan") as the Severance Plan exists either (A) on the date of this Agreement or (B) on Executive's last day of active employment by the Company or any Affiliate (the "Last Day of Employment"), as if Executive had incurred a "Qualifying Termination" (as such term is defined in the Severance Plan). The Severance Plan as it exists on the date of this Agreement is attached hereto as Exhibit A. Executive must notify the Company in writing within 5 business days after Executive's Last Day of Employment of Executive's Change of Control Election. Severance compensation and benefits provided under this Section 1.07(c) will terminate immediately if Executive violates Sections 3.02, 3.03, or 3.05 of this Agreement or becomes reemployed with the Company or an Affiliate.

(ii) For the purpose of this subsection, a "Change of Control" means:

(A) the acquisition, other than from Block, by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")), of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 35% or more of the then outstanding voting securities of Block entitled to vote generally in the election of directors, but excluding, for this purpose, any such acquisition by Block or any of its subsidiaries, or any employee benefit plan (or related trust) of Block or its subsidiaries, or any corporation with respect to which, following such acquisition, more than 50% of the then outstanding voting securities of such corporation entitled to vote generally in the election of directors is then beneficially owned, directly or indirectly, by all or substantially all of the individuals and entities who were the beneficial owners of the voting securities of Block immediately prior to such acquisition in substantially the same proportion as their ownership, immediately prior to such acquisition, of the then outstanding voting securities of Block entitled to vote generally in the election of directors, as the case may be; or

(B) individuals who, as of the date hereof, constitute the Board of Directors of Block (generally, the "Board," and as of the date hereof, the "Incumbent Board") cease for any reason to constitute at least a majority of the Board, provided that any individual or individuals becoming a director subsequent to the date hereof, whose election, or nomination for election by Block's shareholders, was approved by a vote of at least a majority of the Board (or nominating committee of the Board) will be considered as though such individual were a member or members of the Incumbent Board, but excluding, for this purpose, any such

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individual whose initial assumption of office is in connection with an actual or threatened election contest relating to the election of the directors of Block (as such terms are used in Rule 14a-11 of Regulation 14A promulgated under the Exchange Act); or

(C) the completion of a reorganization, merger or consolidation approved by the shareholders of Block, in each case, with respect to which all or substantially all of the individuals and entities who were the respective beneficial owners of the voting securities of Block immediately prior to such reorganization, merger or consolidation do not, following such reorganization, merger or consolidation, beneficially own, directly or indirectly, more than 50% of the then outstanding voting securities entitled to vote generally in the election of directors of the corporation resulting from such reorganization, merger or consolidation, or a complete liquidation or dissolution of Block, as approved by the shareholders of Block, or the sale or other disposition of all or substantially all of the assets of Block, as approved by the shareholders of Block.

(d) Severance. Executive will receive severance compensation and benefits as would be provided under the Severance Plan, as the same may be amended from time to time, if Executive incurs a "Qualifying Termination," as

such term is defined in the Severance Plan, and executes an agreement with the Company under which Executive releases all known and potential claims against Block, the Company, and Affiliates. Such compensation and benefits will be Executive's election (the "Severance Election") of the same level of severance compensation and benefits as would be provided under the Severance Plan as such plan exists either (i) on the date of this Agreement or (ii) Executive's Last Day of Employment; provided, however, Executive will be credited with the lesser of (A) one-twelfth of Executive's target payout under the H&R Block Short-Term Incentive Plan and the discretionary short-term incentive program as of the Executive's Last Day of Employment, or (B) one-twelfth of Executive's actual payout under the H&R Block Short-Term Incentive Plan and the discretionary short-term incentive program for the fiscal year ended immediately prior to Executive's Last Day of Employment for the purpose of determining severance compensation under Section 4(a)(ii) of the Severance Plan as it exists on the date of this Agreement or the comparable section of the Severance Plan as it exists on Executive's Last Day of Employment, notwithstanding any provision in the Severance Plan to the contrary. The Severance Plan as it exists on the date of this Agreement is attached hereto as Exhibit A. Executive must notify the Company in writing within 5 business days after Executive's Last Day of Employment of Executive's Severance Election. Severance compensation and benefits provided under this Section 1.07(d) will terminate immediately if Executive violates Sections 3.02, 3.03, or 3.05 of this Agreement or becomes reemployed with the Company or an Affiliate.

(e) Further Obligations. Upon termination of Executive's employment under this Agreement, neither the Company, Block, nor any Affiliate will have any further obligations under this Agreement and no further payments of Base Salary or

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other compensation or benefits will be payable by the Company, Block, or any Affiliate to Executive, except (i) as set forth in this Section 1.07, (ii) as required by the express terms of any written benefit plans or written arrangements maintained by the Company or Block and applicable to Executive at the time of such termination of Executive's employment, or (iii) as may be required by law. Any termination of this Agreement, however, will not be effective as to Sections 3.02, 3.03 and 3.05, or any other portions or provisions of this Agreement which, by their express terms, require performance by either party following termination of this Agreement.

ARTICLE TWO

CONFIDENTIALITY

2.01 - Background and Relationship of Parties. The parties hereto acknowledge (for all purposes including, without limitation, Articles Two and Three of this Agreement) that Block and its subsidiaries have been and will be engaged in a continuous program of acquisition and development respecting their businesses, present and future, and that, in connection with Executive's employment by the Company, Executive will be expected to have access to all information of value to the Company and Block and that Executive's employment creates a relationship of confidence and trust between Executive and Block with respect to any information applicable to the businesses of Block and its subsidiaries. Executive will possess or have unfettered access to information that has been created, developed, or acquired by Block and its subsidiaries or otherwise become known to Block and its subsidiaries and which has commercial value in the businesses in which Block and its subsidiaries have been and will be engaged and has not been publicly disclosed by Block. All information described above is hereinafter called "Proprietary Information." By way of illustration, but not limitation, Proprietary Information includes trade secrets, customer lists and information, employee lists and information, developments, systems, designs, software, databases, know-how, marketing plans, product information, business and financial information and plans, strategies, forecasts, new products and services, financial statements, budgets, projections, prices, and acquisition and disposition plans. Proprietary Information does not include any portions of such information which are now or hereafter made public by third parties in a lawful manner or made public by parties hereto without violation of this Agreement.

2.02 - Proprietary Information is Property of Block.

(a) All Proprietary Information is the sole property of Block (or

the applicable subsidiary of Block) and its assigns, and Block (or the applicable subsidiary of Block) is the sole owner of all patents, copyrights, trademarks, names, and other rights in connection therewith and without regard to whether Block (or any subsidiary of Block) is at any particular time developing or marketing the same. Executive hereby assigns to Block any rights Executive may have or may acquire in such Proprietary Information. At all times during and after Executive's employment with the Company or any Affiliate, Executive will keep in strictest confidence and trust all Proprietary Information and Executive will not use or disclose any Proprietary Information without

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the written consent of Block, except as may be necessary in the ordinary course of performing duties as an employee of the Company or as may be required by law or the order of any court or governmental authority.

(b) In the event of any termination of Executive's employment hereunder, Executive will promptly deliver to the Company all copies of all documents, notes, drawings, programs, software, specifications, documentation, data, Proprietary Information, and other materials and property of any nature belonging to Block or any subsidiary of Block and obtained during the course of Executive's employment with the Company. In addition, upon such termination, Executive will not remove from the premises of Block or any subsidiary of Block any of the foregoing or any reproduction of any of the foregoing or any Proprietary Information that is embodied in a tangible medium of expression.

ARTICLE THREE

NON-HIRING; NON-SOLICITATION; NO CONFLICTS; NON-COMPETITION

3.01 - General. The parties hereto acknowledge that, during the course of Executive's employment by the Company, Executive will have access to information valuable to the Company and Block concerning the employees of Block and its subsidiaries ("Block Employees") and, in addition to Executive's access to such information, Executive may, during (and in the course of) Executive's employment by the Company, develop relationships with such Block Employees whereby information valuable to Block and its subsidiaries concerning the Block Employees was acquired by Executive. Such information includes, without limitation: the identity, skills, and performance levels of the Block Employees, as well as compensation and benefits paid by Block to such Block Employees. Executive agrees and understands that it is important to protect Block, the Company, Affiliates and their employees, agents, directors, and clients from the unauthorized use and appropriation of Block Employee information, Proprietary Information, and trade secret business information developed, held, or used by Block, the Company, or Affiliates, and to protect Block, the Company, and Affiliates and their employees, agents, directors, and customers Executive agrees to the covenants described in this Article III.

3.02 - Non-Hiring. During the period of Executive's employment hereunder, and for a period of 1 year after Executive's Last Day of Employment, Executive may not directly or indirectly recruit, solicit, or hire any Block Employee or otherwise induce any such Block Employee to leave the employment of Block (or the applicable employer-subsidiary of Block) to become an employee of or otherwise be associated with any other party or with Executive or any company or business with which Executive is or may become associated. The running of the 1-year period will be suspended during any period of violation and/or any period of time required to enforce this covenant by litigation or threat of litigation.

3.03 - Non-Solicitation. During the period of Executive's employment hereunder and during the time Executive is receiving payments hereunder, and for

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years after the later of Executive's Last Day of Employment or cessation of such payments, Executive may not directly or indirectly solicit or enter into any arrangement with any person or entity which is, at the time of the solicitation, a significant customer of the Company or an Affiliate for the purpose of engaging in any business transaction of the nature performed by the Company or such Affiliate, or contemplated to be performed by the Company or such

Affiliate, for such customer, provided that this Section 3.03 will only apply to customers for whom Executive personally provided services while employed by the Company or an Affiliate or customers about whom or which Executive acquired material information while employed by the Company or an Affiliate. The running of the 2-year period will be suspended during any period of violation and/or any period of time required to enforce this covenant by litigation or threat of litigation.

3.04 - No Conflicts. Executive represents in good faith that, to the best of Executive's knowledge, the performance by Executive of all the terms of this Agreement will not breach any agreement to which Executive is or was a party and which requires Executive to keep any information in confidence or in trust. Executive has not brought and will not bring to the Company or Block nor will Executive use in the performance of employment responsibilities at the Company any proprietary materials or documents of a former employer that are not generally available to the public, unless Executive has obtained express written authorization from such former employer for their possession and use. Executive has not and will not breach any obligation of confidentiality that Executive may have to former employers and Executive will fulfill all such obligations during Executive's employment with the Company.

3.05 - Non-Competition. During the period of Executive's employment hereunder and during the time Executive is receiving payments hereunder, and for 2 years after the later of Executive's Last Day of Employment or cessation of such payments, Executive may not engage in, or own or control any interest in (except as a passive investor in less than one percent of the outstanding securities of publicly held companies), or act as an officer, director or employee of, or consultant, advisor or lender to, any firm, corporation, partnership, limited liability company, institution, business, government agency, or entity that engages in any line of business that is competitive with any Line of Business of Block (as defined below), provided that this Section 3.05 will not apply to Executive if Executive's primary place of employment by the Company or an Affiliate as of the Last Day of Employment is in either the State of California or the State of North Dakota. "Line of Business of Block" means any line of business (including lines of business under evaluation or development) of the Company, as well as any one or more lines of business (including lines of business under evaluation or development) of any Affiliate by which Executive was employed during the two-year period preceding the Last Day of Employment, provided that, "Line of Business of Block" will in all events include, but not be limited to, the income tax return preparation business, and provided further that if Executive's employment was, as of the Last Day of Employment or during the 2-year period immediately prior to the Last Day of Employment, with HRB Management, Inc. or any successor entity thereto, "Line of Business of Block" means any line of business (including lines of business under evaluation or development) of Block and all of its subsidiaries. The

running of the 2-year period will be suspended during any period of violation and/or any period of time required to enforce this covenant by litigation or threat of litigation.

3.06 - Reasonableness of Restrictions. Executive and the Company acknowledge that the restrictions contained in this Agreement are reasonable, but should any provisions of any Article of this Agreement be determined to be invalid, illegal, or otherwise unenforceable or unreasonable in scope by any court of competent jurisdiction, the validity, legality, and enforceability of the other provisions of this Agreement will not be affected thereby and the provision found invalid, illegal, or otherwise unenforceable or unreasonable will be considered by the Company and Executive to be amended as to scope of protection, time, or geographic area (or any one of them, as the case may be) in whatever manner is considered reasonable by that court and, as so amended, will be enforced.

ARTICLE FOUR

MISCELLANEOUS

4.01 - Third-Party Beneficiary. The parties hereto agree that Block is a third-party beneficiary as to the obligations imposed upon Executive under this Agreement and as to the rights and privileges to which the Company is entitled pursuant to this Agreement, and that Block is entitled to all of the rights and privileges associated with such third-party-beneficiary status.

4.02 - Entire Agreement. This Agreement constitutes the entire agreement and understanding between the Company and Executive concerning the subject matter hereof. No modification, amendment, termination, or waiver of this Agreement will be binding unless in writing and signed by Executive and a duly authorized officer of the Company. Failure of the Company, Block, or Executive to insist upon strict compliance with any of the terms, covenants, or conditions hereof will not be deemed a waiver of such terms, covenants, and conditions.

4.03 - Specific Performance by Executive. The parties hereto acknowledge that money damages alone will not adequately compensate the Company or Block or Executive for breach of any of the covenants and agreements herein and, therefore, in the event of the breach or threatened breach of any such covenant or agreement by either party, in addition to all other remedies available at law, in equity or otherwise, a wronged party will be entitled to injunctive relief compelling specific performance of (or other compliance with) the terms hereof.

4.04 - Successors and Assigns. This Agreement is binding upon Executive and the heirs, executors, assigns and administrators of Executive or Executive's estate and property and will inure to the benefit of the Company, Block and their successors and assigns. Executive may not assign or transfer to others the obligation to perform Executive's duties hereunder. The Company may assign this Agreement to an Affiliate with the consent of Executive, in which case, after such assignment, the "Company" means the Affiliate to which this Agreement has been

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assigned.

4.05 - Withholding Taxes. From any payments due hereunder to Executive from the Company, there will be withheld amounts reasonably believed by the Company to be sufficient to satisfy liabilities for federal, state, and local taxes and other charges and customary withholdings. Executive remains primarily liable to such authorities for such taxes and charges to the extent not actually paid by the Company. This Section 4.05 does not affect the Company's obligation to "gross up" any relocation benefits paid to Executive pursuant to Subsection 1.04(b).

4.06 - Indemnification. To the fullest extent permitted by law and Block's Bylaws, the Company hereby indemnifies during and after the period of Executive's employment hereunder Executive from and against all loss, costs, damages, and expenses including, without limitation, legal expenses of counsel selected by the Company to represent the interests of Executive (which expenses the Company will, to the extent so permitted, advance to executive as the same are incurred) arising out of or in connection with the fact that Executive is or was a director, officer, employee, or agent of the Company or Block or serving in such capacity for another corporation at the request of the Company or Block. Notwithstanding the foregoing, the indemnification provided in this Section 4.06 will not apply to any loss, costs, damages, and expenses arising out of or relating in any way to any employment of Executive by any former employer or the termination of any such employment.

4.07 - Right to Offset. To the extent not prohibited by applicable law and in addition to any other remedy, the Company has the right but not the obligation to offset any amount that Executive owes the Company under this Agreement against any amounts due Executive by Block, the Company, or Affiliates.

4.08 - Waiver of Jury Trial. Both parties to this Agreement, and Block, as a third-party beneficiary pursuant to Section 4.01 of this Agreement, waive any and all right to any trial by jury in any action or proceeding directly or indirectly related to this Agreement and Executive's employment hereunder.

4.09 - Notices. All notices required or desired to be given hereunder must be in writing and will be deemed served and delivered if delivered in person or mailed, postage prepaid to Executive at: 4400 Main Street, Kansas City, Missouri 64111; and to the Company at: 4400 Main Street, Kansas City, Missouri 64111, Attn: President, with a copy to H&R Block, Inc., 4400 Main Street, Kansas City, Missouri 64111, Attn: Corporate Secretary; or to

such other address and/or person designated by either party in writing to the other party. Any notice given by mail will be deemed given as of the date it is so mailed and postmarked or received by a nationally recognized overnight courier for delivery.

4.10 - Counterparts. This Agreement may be signed in counterparts and delivered by facsimile transmission confirmed promptly thereafter by actual delivery of executed counterparts.

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Executed as a sealed instrument under, and to be governed by, construed and enforced in accordance with, the laws of the State of Missouri.

EXECUTIVE:

Dated: 12-2-02

/s/ Tammy S. Serati

Tammy S. Serati

Accepted and Agreed:

HRB MANAGEMENT, INC.
a Missouri corporation

By: /s/ Mark A. Ernst

Mark A. Ernst
President and Chief Executive Officer

Dated: 2 Dec. 2002

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EXHIBIT A

H&R BLOCK SEVERANCE PLAN
(AS AMENDED APRIL 15, 2002)

1. PURPOSE. The H&R Block Severance Plan is a welfare benefit plan established by HRB Management, Inc., an indirect subsidiary of H&R Block, Inc., for the benefit of certain subsidiaries of H&R Block, Inc. in order to provide severance compensation and benefits to certain employees of such subsidiaries whose employment is involuntarily terminated under the conditions set forth herein. This document constitutes both the plan document and the summary plan description required by the Employee Retirement Income Security Act of 1974.

2. DEFINITIONS.

(a) "Company" means H&R Block, Inc.

(b) "Employee" means a regular full-time or part-time, active employee of a Participating Employer whose employment with a Participating Employer is not subject to an employment contract that contains a provision that includes severance benefits. This definition expressly excludes seasonal, temporary and inactive employees of a Participating Employer and employees who are customarily employed by a Participating Employer less than 20 hours per week.

(c) "ERISA" means the Employee Retirement Income Security Act of 1974, as amended.

(d) "Hour of Service" means each hour for which an individual was entitled to compensation as a regular full-time or part-time employee from a subsidiary of the Company.

(e) "Line of Business of the Company" with respect to a Participant means any line of business of the Participating Employer by which the Participant was employed as of the Termination Date, as well as any one or more lines of business of any other subsidiary of the Company by which the

Participant was employed during the two-year period preceding the Termination Date, provided that, if Participant's employment was, as of the Termination Date or during the two-year period immediately prior to the Termination Date, with HRB Management, Inc. or any successor entity thereto, "Line of Business of the Company" shall mean any lines of business of the Company and all of its subsidiaries.

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(f) "Participant" means an Employee who has incurred a Qualifying Termination and has signed a Release that has not been revoked during any revocation period provided under the Release.

(g) "Participating Employer" means a direct or indirect subsidiary of the Company (i) listed on Schedule A, attached hereto, which may change from time to time to reflect new Participating Employers or withdrawing Participating Employers, and (ii) approved by the Plan Sponsor for participation in the Plan.

(h) "Plan" means the "H&R Block Severance Plan," as stated herein, and as may be amended from time to time.

(i) "Plan Administrator" and "Plan Sponsor" means HRB Management, Inc. The address and telephone number of HRB Management, Inc. is 4400 Main Street, Kansas City, Missouri 64111, (816) 753-6900. The Employer Identification Number assigned to HRB Management, Inc. by the Internal Revenue Service is 43-1632589.

(j) "Qualifying Termination" means the involuntary termination of an Employee, but does NOT include a termination resulting from:

(i) the termination of an Employee as a result of the elimination of the Employee's position where the Employee was offered another position with a subsidiary of the Company at a comparable salary and benefit level, or where the termination results from a sale of assets or other corporate acquisition;

(ii) the redefinition of an Employee's position to a lower salary rate;

(iii) the termination of an Employee for cause; or

(iv) the non-renewal of employment contracts.

(k) "Release" means that agreement signed by and between an Employee who is eligible to participate in the Plan and the Employee's Participating Employer under which the Employee releases all known and potential claims against the Employee's Participating Employer and all of such employer's parents, subsidiaries, and affiliates.

(l) "Release Date" means, with respect to a Release that includes a revocation period, the date immediately following the expiration date of the revocation period in the Release that has been fully executed by both parties. "Release Date" means, with respect to a Release that does not include a

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revocation period, the date the Release has been fully executed by both parties.

(m) "Severance Period" means the period of time during which a Participant may receive benefits under this Plan. The Severance Period with respect to a Participant begins on the Termination Date. A Participant's Severance Period will be the shorter of (i) 12 months or (ii) a number of months equal to the whole number of Years of Service determined under Section 2(p), unless earlier terminated in accordance with Section 8 of the Plan.

(n) "Termination Date" means the date the Employee severs employment with a Participating Employer.

(o) "Monthly Salary" means -

(i) with respect to an Employee paid on a salary basis, the Employee's current annual salary divided by 12; and

(ii) with respect to an Employee paid on an hourly basis, the Employee's current hourly rate times the number of hours he or she is regularly scheduled to work per week multiplied by 52 and then divided by 12.

(p) "Year of Service" means each period of 12 consecutive months ending on the Employee's employment anniversary date during which the Employee had at least 1,000 Hours of Service. In determining a Participant's Years of Service, the Participant will be credited with a partial Year of Service for his or her final period of employment commencing on his or her most recent employment anniversary date equal to a fraction calculated in accordance with the following formula:

$$\frac{\text{Number of days since most recent employment anniversary date}}{\text{-----}} \\ \text{365}$$

Despite an Employee's Years of Service calculated in accordance with the above, an Employee whose pay grade at his or her Participating Employer fits in the following categories at the time of the Qualifying Termination will be credited with no less than the specified Minimum Years of Service and no more than the specified Maximum Years of Service listed in the following table as applicable to such pay grade:

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PAY GRADE -----	MINIMUM YEARS OF SERVICE -----	MAXIMUM YEARS OF SERVICE -----
81-89 and 231-235	6	18
65-80, 140-145, 185-190, and 218-230	3	18
57-64, 115-135, 175-180, and 210-217	1	18
48-56, 100-110, 170, and 200-209	1	18

Notwithstanding the above, if an Employee has received credit for Years of Service under this Plan or under any previous plan, program, or agreement for the purpose of receiving severance benefits before a Qualifying Termination, such Years of Service will be disregarded when calculating Years of Service for such Qualifying Termination under the Plan; provided, however, that if such severance benefits were terminated prior to completion because the Employee was rehired by any subsidiary of the Company then the Employee will be re-credited with full Years of Service for which severance benefits were not paid in full or in part because of such termination..

3. ELIGIBILITY AND PARTICIPATION. All Employees who incur a Qualifying Termination and sign a Release are eligible to participate in the Plan. An eligible Employee will become a Participant in the Plan as of the Termination Date.

4. SEVERANCE COMPENSATION.

(a) Amount. Subject to Section 8, each Participant will receive during the Severance Period from the applicable Participating Employer aggregate severance compensation equal to:

(i) the Participant's Monthly Salary multiplied by the Participant's Years of Service; plus

(ii) one-twelfth of the Participant's target payout under the Short-Term Incentive Program of the Participating Employer in effect at the time of his or her Termination Date multiplied by the Participant's Years of Service; plus

(iii) an amount to be determined by the Participating Employer at its sole discretion, which amount may be zero.

(b) Timing of Payments. Except as stated in Section 4(c), and subject to Section 8,

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(i) the sum of any amounts determined under Sections 4(a)(i) and 4(a)(ii) of the Plan will be paid in semi-monthly or bi-weekly installments (the timing and amount of each installment as determined by the Participating Employer) during the Severance Period beginning after the later of the Termination Date or the Release Date; and

(ii) any amounts determined under Section 4(a)(iii) of the Plan will be paid in one lump sum within 15 days after the later of the Termination Date or the Release Date, unless otherwise agreed in writing by the Participating Employer and Participant or otherwise required by law.

(c) Death. In the event of the Participant's death prior to receiving all payments due under this Section 4, any unpaid severance compensation will be paid (i) in the same manner as are death benefits under the Participant's basic life insurance coverage provided by the Participant's Participating Employer, and (ii) in accordance with the Participant's beneficiary designation under such coverage. If no such coverage exists, or if no beneficiary designation exists under such coverage as of the date of death of the Participant, the severance compensation will be paid to the Participant's estate in one-lump sum.

5. HEALTH AND WELFARE BENEFITS.

(a) Benefits. In addition to the severance compensation provided pursuant to Section 4 of the Plan, a Participant may continue to participate in the following health and welfare benefits provided by his or her Participating Employer during the Severance Period on the same basis as employees of the Participating Employer:

(i) medical;

(ii) dental;

(iii) vision;

(iv) employee assistance;

(v) medical expense reimbursement and dependent care expense reimbursement benefits provided under a cafeteria plan;

(vi) life insurance (basic and supplemental); and

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(vii) accidental death and dismemberment insurance (basic and supplemental).

For the purposes of any of the above-described benefits provided under a Participating Employer's cafeteria plan, a Qualifying Termination constitutes a "change in status" or "life event."

(b) Payment and Expiration. Payment of the Participant's portion of contribution or premiums for such selected benefits will be withheld from any severance compensation payments paid to the Participant under this Plan. The Participating Employer's partial subsidization of such coverages will remain in effect until the earlier of:

(i) the expiration or earlier termination of the Employee's Severance Period, after which time the Participant may be eligible to elect to continue coverage of those benefits listed above that are provided under group health plans in accordance with his or her rights under Section 4980B of the Internal Revenue Code; or

(ii) the Participant's attainment of or eligibility to attain health and welfare benefits through another employer after which time the Participant may be eligible to elect to continue coverage of those benefits listed above that are provided under group health plans in accordance with his or her rights under Section 4980B of the Internal Revenue Code.

6. STOCK OPTIONS.

(a) Accelerated Vesting. Any portion of any outstanding incentive stock options and nonqualified stock options that would have vested during the 18-month period following the Termination Date had the Participant remained an employee with the Participating Employer during such 18-month period will vest as of the Termination Date. This Section 6(a) applies only to options (i) granted to the Participant under the Company's 1993 Long-Term Executive Compensation Plan, or any successor plan to its 1993 Long-Term Executive Compensation Plan, not less than 6 months prior to his or her Termination Date and (ii) outstanding at the close of business on such Termination Date. The determination of accelerated vesting under this Section 6(a) shall be made as of the Termination Date and shall be based solely on any time-specific vesting schedule included in the applicable stock option agreement without regard to any accelerated vesting provision not related to the Plan in such agreement.

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(b) Post-Termination Exercise Period. Subject to the expiration dates and other terms of the applicable stock option agreements, the Participant may elect to have the right to exercise any outstanding incentive stock options and nonqualified stock options granted prior to the Termination Date to the Participant under the Company's 1984 Long-Term Executive Compensation Plan, its 1993 Long-Term Executive Compensation Plan, or any successor plan to its 1993 Long-Term Executive Compensation Plan that are vested as of the Termination Date (or, if later, the Release Date), whether due to the operation of Section 6(a), above, or otherwise, at any time during the Severance Period and, except in the event that the Severance Period terminates pursuant to Section 8(a), for a period up to 3 months after the end of the Severance Period (notwithstanding Section 8). Any such election shall apply to all outstanding incentive stock options and nonqualified stock options, will be irrevocable and must be made in writing and delivered to the Plan Administrator on or before the later of the Termination Date or Release Date. If the Participant fails to make an election, the Participant's right to exercise such options will expire 3 months after the Termination Date.

(c) Stock Option Agreement Amendment. The operation of Sections 6(a) and 6(b), above, are subject to the Participant's execution of an amendment to any affected stock option agreements.

7. OUTPLACEMENT SERVICES. In addition to the benefits described above, career transition counseling or outplacement services may be provided upon the Participant's Qualifying Termination. Such outplacement service will be provided at the Participating Employer's sole discretion. Outplacement services are designed to assist employees in their search for new employment and to facilitate a smooth transition between employment with the Participating Employer and employment with another employer. Any outplacement services provided under this Plan will be provided by an outplacement service chosen by the Participating Employer. The Participant is not entitled to any monetary payment in lieu of outplacement services.

8. TERMINATION OF BENEFITS. Any right of a Participant to severance compensation and benefits under the Plan, and all obligations of his or her Participating Employer to pay any unpaid severance compensation or provide benefits under the Plan will terminate as of the day:

(a) The Participant has engaged in any conduct described in Sections

8(a)(i), 8(a)(ii), 8(a)(iii) or 8(a)(iv), below, as the same may be limited pursuant to Section 8(a)(vi).

(i) During the Severance Period, the Participant's engagement in, ownership of, or control of any interest in (except as a passive investor in

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less than one percent of the outstanding securities of publicly held companies), or acting as an officer, director or employee of, or consultant, advisor or lender to, any firm, corporation, partnership, limited liability company, institution, business, government agency, or entity that engages in any line of business that is competitive with any Line of Business of the Company, provided that this Section 8(a)(i) shall not apply to the Participant if the Participant's primary place of employment by a subsidiary of the Company as of the Termination Date is in either the State of California or the State of North Dakota.

(ii) During the Severance Period, the Participant employs or solicits for employment by any employer other than a subsidiary of the Company any employee of any subsidiary of the Company, or recommends any such employee for employment to any employer (other than a subsidiary of the Company) at which the Participant is or intends to be (A) employed, (B) a member of the Board of Directors, (C) a partner, or (D) providing consulting services.

(iii) During the Severance Period, the Participant directly or indirectly solicits or enters into any arrangement with any person or entity which is, at the time of the solicitation, a significant customer of a subsidiary of the Company for the purpose of engaging in any business transaction of the nature performed by such subsidiary, or contemplated to be performed by such subsidiary, for such customer, provided that this Section 8(a)(iii) shall only apply to customers for whom the Participant personally provided services while employed by a subsidiary of the Company or customers about whom or which the Participant acquired material information while employed by a subsidiary of the Company.

(iv) During the Severance Period, the Participant misappropriates or improperly uses or discloses confidential information of the Company and/or its subsidiaries.

(v) If the Participant engaged in any of the conduct described in Sections 8(a)(i), 8(a)(ii), 8(a)(iii) or 8(a)(iv) during or after Participant's term of employment with a Participating Employer, but prior to the commencement of the Severance Period, and such engagement becomes known to the Participating Employer during the Severance Period, such conduct shall be deemed, for purposes of Sections 8(a)(i), 8(a)(ii), 8(a)(iii) or 8(a)(iv) to have occurred during the Severance Period.

(vi) If the Participant is a party to an employment contract with a Participating Employer that contains a covenant or covenants relating to the Participant's engagement in conduct that is the same as or

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substantially similar to the conduct described in any of Sections 8(a)(i), 8(a)(ii), 8(a)(iii) or 8(a)(iv), and any specific conduct regulated in such covenant or covenants in such employment contract is more limited in scope geographically or otherwise than the corresponding specific conduct described in any of such Sections 8(a)(i), 8(a)(ii), 8(a)(iii) or 8(a)(iv), then the corresponding specific conduct addressed in the applicable Section 8(a)(i), 8(a)(ii), 8(a)(iii) or 8(a)(iv) shall be limited to the same extent as such conduct is limited in the employment contract and the Participating Employer's rights and remedy with respect to such conduct under this Section 8 shall apply only to such conduct as so

limited.

(b) The Participant is rehired by his or her Participating Employer or hired by any other subsidiary of the Company in any position other than a position classified as seasonal by such employer.

9. AMENDMENT AND TERMINATION. The Plan Sponsor reserves the right to amend the Plan or to terminate the Plan and all benefits hereunder in their entirety at any time.

10. ADMINISTRATION OF PLAN. The Plan Administrator has the power and discretion to construe the provisions of the Plan and to determine all questions relating to the eligibility of employees of Participating Employers to become Participants in the Plan, and the amount of benefits to which any Participant may be entitled thereunder in accordance with the Plan. Not in limitation, but in amplification of the foregoing and of the authority conferred upon the Plan Administrator, the Plan Sponsor specifically intends that the Plan Administrator have the greatest permissible discretion to construe the terms of the Plan and to determine all questions concerning eligibility, participation and benefits. Any such decision made by the Plan Administrator will be binding on all Employees, Participants, and Beneficiaries, and is intended to be subject to the most deferential standard of judicial review. Such standard of review is not to be affected by any real or alleged conflict of interest on the part of the Plan Administrator. The decision of the Plan Administrator upon all matters within the scope of its authority will be final and binding.

11. CLAIMS PROCEDURES.

(a) FILING A CLAIM FOR BENEFITS. Participants are not required to submit claim forms to initiate payment of benefits under this Plan. To make a claim for benefits, individuals other than Participants who believe they are entitled to receive benefits under this Plan and Participants who believe they have been denied certain benefits under the Plan must write to the Plan Administrator. These individuals and such Participants are hereinafter

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referred to in this Section 11 as "Claimants." Claimants must notify the Plan Administrator if they will be represented by a duly authorized representative with respect to a claim under the Plan.

(b) INITIAL REVIEW OF CLAIMS. The Plan Administrator will evaluate a claim for benefits under the Plan. The Plan Administrator may solicit additional information from the Claimant if necessary to evaluate the claim. If the Plan Administrator denies all or any portion of the claim, the Claimant will receive, within 90 days after the receipt of the written claim, a written notice setting forth:

(i) the specific reason for the denial;

(ii) specific references to pertinent Plan provisions on which the Plan Administrator based its denial;

(iii) a description of any additional material and information needed for the Claimant to perfect his or her claim and an explanation of why the material or information is needed; and

(iv) that any appeal the Claimant wishes to make of the adverse determination must be in writing to the Plan Administrator within 60 days after receipt of the notice of denial of benefits. The notice must advise the Claimant that his or her failure to appeal the action to the Plan Administrator in writing within the 60-day period will render the Plan Administrator's determination final, binding and conclusive. The notice must further advise the Claimant of his or her right to bring a civil action under Section 502(a) of ERISA following the exhaustion of the claims procedures described herein.

(c) APPEAL OF DENIED CLAIM AND FINAL DECISION. If the Claimant should appeal to the Plan Administrator, the Claimant, or his or her duly authorized representative, must submit, in writing, whatever issues and comments the Claimant or his or her duly authorized representative feels are pertinent. The Claimant, or his or her duly authorized representative,

may review and request pertinent Plan documents. The Plan Administrator will reexamine all facts related to the appeal and make a final determination as to whether the denial of benefits is justified under the circumstances. The Plan Administrator will advise the Claimant in writing of its decision within 60 days of the Claimant's written request for review, unless special circumstances (such as a hearing) require an extension of time, in which case the Plan Administrator will make a decision as soon as possible, but no later than 120 days after its receipt of a request for review.

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12. PLAN FINANCING. The benefits to be provided under the Plan will be paid by the applicable Participating Employer, as incurred, out of the general assets of such Participating Employer.

13. GENERAL INFORMATION. The Plan's records are maintained on a calendar year basis. The Plan Number is 509. The Plan is self-administered and is considered a severance plan.

14. GOVERNING LAW. The Plan is established in the State of Missouri. To the extent federal law does not apply, any questions arising under the Plan will be determined under the laws of the State of Missouri.

15. ENFORCEABILITY; SEVERABILITY. If a court of competent jurisdiction determines that any provision of the Plan is not enforceable, then such provision shall be enforceable to the maximum extent possible under applicable law, as determined by such court. The invalidity or unenforceability of any provision of the Plan, as determined by a court of competent jurisdiction, will not affect the validity or enforceability of any other provision of the Plan and all other provisions will remain in full force and effect.

16. WITHHOLDING OF TAXES. The applicable Participating Employer may withhold from any benefit payable under the Plan all federal, state, city or other taxes as may be required pursuant to any law, governmental regulation or ruling. The Participant shall pay upon demand by the Company or the Participating Employer any taxes required to be withheld or collected by the Company or the Participating Employer upon the exercise by the Participant of a nonqualified stock option granted under the Company's 1984 Long-Term Executive Compensation Plan or its 1993 Long-Term Executive Compensation Plan. If the Participant fails to pay any such taxes associated with such exercise upon demand, the Participating Employer shall have the right, but not the obligation, to offset such taxes against any unpaid severance compensation under this Plan.

17. NOT AN EMPLOYMENT AGREEMENT. Nothing in the Plan gives an Employee any rights (or imposes any obligations) to continued employment by his or her Participating Employer or other subsidiary of the Company, nor does it give such Participating Employer any rights (or impose any obligations) for the continued performance of duties by the Employee for the Participating Employer or any other subsidiary of the Company.

18. NO ASSIGNMENT. The Employee's right to receive payments of severance compensation and benefits under the Plan are not assignable or transferable, whether by pledge, creation of a security interest, or otherwise. In the event of any attempted assignment or transfer contrary to this section, the applicable Participating Employer will have no liability to pay any amount so attempted to be

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assigned or transferred.

19. SERVICE OF PROCESS. The Secretary of the Plan Administrator is designated as agent for service of legal process. Service of legal process may be made upon the Secretary of the Plan Administrator at:

HRB Management, Inc.
Attn: Secretary
4400 Main Street
Kansas City, Missouri 64111

20. STATEMENT OF ERISA RIGHTS. As a participant in the Plan, you are entitled to certain rights and protections under ERISA, which provides that all Plan Participants are entitled to:

(a) examine without charge, at the Plan Administrator's office, all documents governing the Plan and a copy of the latest annual report (Form 5500 Series) filed by the Plan with the U.S. Department of Labor and available at the Public Disclosure Room of the Pension and Welfare Benefit Administration;

(b) obtain, upon written request to the Plan Administrator, copies of documents governing the operation of the Plan, copies of the latest annual report (Form 5500 Series) and an updated summary plan description. The Plan Administrator may make a reasonable charge for the copies; and

(c) receive a summary of the Plan's annual financial report if required to be filed for the year. The Plan Administrator is required by law to furnish each participant with a copy of this summary annual report if an annual report is required to be filed for the year.

In addition to creating rights for Plan Participants, ERISA imposes duties upon the people who are responsible for the operation of the Plan. The people who operate your Plan, called "fiduciaries" of the Plan, have a duty to do so prudently and in the interest of you and other Plan Participants and beneficiaries. No one, including your Participating Employer or any other person, may fire you or otherwise discriminate against you in any way to prevent you from obtaining a welfare benefit or exercising your rights under ERISA.

If your claim for a welfare benefit is denied or ignored, in whole or in part, you have the right to know why this was done, to obtain copies of documents relating to the decision without charge, and to appeal any denial, all within certain time schedules.

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Under ERISA, there are steps you can take to enforce the above rights. For instance, if you request a copy of plan documents or the latest annual report from the Plan and do not receive them within 30 days, you may file suit in a Federal court. In such a case, the court may require the Plan Administrator to provide the materials to you and pay you up to \$110 a day until you receive the materials, unless the materials were not sent because of reasons beyond the control of the Plan Administrator. If you have a claim for benefits that is denied or ignored, in whole or in part, you may file suit in a state or Federal court. If it should happen that you are discriminated against for asserting your rights, you may seek assistance from the U. S. Department of Labor, or you may file suit in a Federal court. The court will decide who should pay court costs and legal fees. If you are successful, the court may order the person you have sued to pay these costs and fees. If you lose, the court may order you to pay these costs and fees, for example, if it finds your claim is frivolous.

If you have any questions about the Plan, you should contact the Plan Administrator. If you have questions about this statement or about your rights under ERISA, or if you need assistance in obtaining documents from the Plan Administrator, you should contact the nearest office of the Pension and Welfare Benefits Administration, U.S. Department of Labor, listed in your telephone directory or the Division of Technical Assistance and Inquiries, Pension and Welfare Benefits Administration, U.S. Department of Labor, 200 Constitution Avenue N.W., Washington, D.C. 20210. You may also obtain certain publications about your rights and responsibilities under ERISA by calling the publications hotline of the Pension and Welfare Benefits Administration.

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IN WITNESS WHEREOF, HRB Management, Inc. adopts this Severance Plan effective this 23rd day of April, 2001.

HRB MANAGEMENT, INC.

/s/ Mark A. Ernst

Mark A. Ernst
President and Chief Executive Officer

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SCHEDULE A

PARTICIPATING EMPLOYERS

Block Financial Corporation

Financial Marketing Services, Inc.

Franchise Partner, Inc.

H&R Block Investments, Inc.

H&R Block Services, Inc. and its U.S.-based direct and indirect subsidiaries

HRB Business Services, Inc.

HRB Management, Inc.

HRB Retail Services, Inc.

Olde Financial Corporation and its U.S.-based direct and indirect subsidiaries,
which subsidiaries include H&R Block Financial Advisors, Inc.

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EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT ("Agreement") is entered into as of December 13, 2002, by and between H&R Block Services, Inc., a Missouri corporation (the "Company"), and Nana Mensah ("Executive").

ARTICLE ONE

EMPLOYMENT

1.01 - Agreement as to Employment. Effective January 6, 2003 (the "Employment Date"), the Company hereby employs Executive to serve in the capacity set forth in Section 1.02, and Executive hereby accepts such employment by the Company, subject to the terms of this Agreement. The Company reserves the right, in its sole discretion, to change the title of Executive at any time.

1.02 - Duties.

(a) Executive is employed by the Company to serve as its President, U.S. Tax Operations, subject to the authority and direction of the Board of Directors of the Company and the President of the Company. Subject to the foregoing, Executive will have such authority and responsibility and duties as are normally associated with the position of President, U.S. Tax Operations. The Company reserves the right to modify, delete, add, or otherwise change Executive's job responsibilities, in its sole discretion, at any time. Executive will perform such other duties as are assigned to Executive from time to time.

(b) So long as Executive is employed under this Agreement, Executive agrees to devote Executive's full business time and efforts exclusively on behalf of the Company and to competently and diligently discharge Executive's duties hereunder. Executive will not be prohibited from engaging in such personal, charitable, or other nonemployment activities that do not interfere with Executive's full-time employment hereunder and that do not violate the other provisions of this Agreement or the H&R Block, Inc. Code of Business Ethics & Conduct, which Executive acknowledges having read and understood. Executive will comply fully with all reasonable policies of the Company as are from time to time in effect and applicable to Executive's position. Executive understands that the business of H&R Block, Inc. ("Block"), the Company, and/or any other direct or indirect subsidiary of Block (each such other subsidiary an "Affiliate") may be subject to governmental regulation, some of which may require Executive to submit to background investigation as a condition of Block, the Company, and/or Affiliates' participation in certain activities subject to such regulation. If Executive, Block, the Company, or Affiliates are unable to participate, in whole or in part, in any such activity as the result of any action or inaction on the part of Executive, then this Agreement and Executive's employment hereunder may be terminated by the Company without notice.

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1.03 - Compensation.

(a) Base Salary. The Company will pay to Executive a gross salary at an annual rate of \$350,000 ("Base Salary"), payable semimonthly or at any other pay periods as the Company may use for its other executive-level employees. The Base Salary will be reviewed for adjustment no less often than annually during the term of Executive's employment hereunder and, if adjusted, such adjusted amount will become the "Base Salary" for purposes of this Agreement.

(b) Short-Term Incentive Compensation. Executive shall participate in the H&R Block Short-Term Incentive Plan and the discretionary short-term incentive program. Under such Plan and program, Executive shall have an aggregate target bonus for fiscal year 2003 of \$192,500 and an opportunity to earn 200% of such target bonus (prorated as described below). The payment of the actual award under such Plan and program shall be based upon such performance criteria which shall be determined by the Compensation Committee of the Board of Directors of Block (the "Compensation Committee"). Under such Plan and program, for fiscal year 2003 only, Executive's actual incentive compensation shall be prorated based upon the number of months during such year that Executive is actually employed by the Company, provided that Executive must remain employed

through April 30, 2003 to receive any payments under the Plan and program. Such incentive compensation shall be paid to Executive following the completion of fiscal year 2003 when the same is paid to other senior executives of the Company.

(c) Stock Options. As approved by the Compensation Committee and the Board of Directors of Block itself, Executive shall be granted on the Employment Date a stock option under the H&R Block 1993 Long-Term Executive Compensation Plan, as amended (the "1993 Plan"), to purchase 30,000 shares of Block's common stock at an option price per share equal to its closing price on the New York Stock Exchange on the date of grant, such option to expire on the tenth anniversary of the date of grant; to vest and become exercisable as to one-third (10,000) of the shares covered thereby on the second anniversary of the date of grant, as to an additional one-third (10,000) of such shares on the third anniversary of the date of grant, and as to the remaining one-third (10,000) of the shares on the fourth anniversary of the date of grant; to be an incentive stock option for the maximum number of shares permitted by Internal Revenue Code Section 422 and the regulations promulgated thereunder; and to otherwise be a nonqualified stock option.

(d) Restricted Stock. As approved by the Compensation Committee and the Board of Directors of Block itself, Executive shall be awarded promptly after the Employment Date, 5,000 restricted shares of Block's common stock ("Restricted Shares") under the 1993 Plan. One-third of the 5,000 Restricted Shares shall vest (i.e., the restrictions on such shares shall terminate), respectively, on each of the first three anniversaries following such employment commencement date (in increments of 1,666, 1,667 and 1,667 whole shares). Prior to the time such Restricted Shares are so vested, (i) such Restricted Shares shall be nontransferable, and (ii) Executive shall be entitled to receive any cash dividends payable with respect to unvested Restricted Shares and vote such unvested Restricted Shares at any meeting of shareholders of Block.

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1.04 - Relocation Benefits.

(a) The Company will reimburse Executive for reasonable packing, shipping, transportation costs and other expenses incurred by Executive in relocating Executive, Executive's family and personal property to the Greater Kansas City Area, in accordance with the H&R Block Executive Relocation Program.

(b) To the extent that Executive incurs taxable income related to any relocation benefits paid pursuant to this Agreement, the Company will pay to Executive such additional amount as is necessary to "gross up" such benefits and cover the anticipated income tax liability resulting from such taxable income.

1.05 - Business Expenses. The Company will promptly pay directly, or reimburse Executive for, all business expenses, to the extent such expenses are paid or incurred by Executive during the term hereof in accordance with the Company's policy in effect from time to time and to the extent such expenses are reasonable and necessary to the conduct by Executive of the Company's business.

1.06 - Fringe Benefits. During the term of Executive's employment hereunder, and subject to the discretionary authority given to the applicable benefit plan administrators, the Company will make available to Executive such insurance, sick leave, deferred compensation, short-term incentive compensation, bonuses, stock options, retirement, vacation, and other like benefits as are approved and provided from time to time to the other executive-level employees of the Company or Affiliates. With respect to any stock options that may be granted to Executive on or about June 30, 2003, such grant, if any, will not be prorated on the basis of Executive's Employment Date.

1.07 - Termination of Employment.

(a) Without Notice. The Company may, at any time, in its sole discretion, terminate this Agreement and the employment of Executive without notice in the event of:

(i) Executive's misconduct that interferes with or prejudices the proper conduct of the business of Block, the Company or any Affiliate or which may reasonably result in harm to the reputation of Block, the Company and/or any Affiliate; or

(ii) Executive's commission of an act materially and demonstrably detrimental to the good will of Block or any subsidiary of Block, which act constitutes gross negligence or willful misconduct by Executive in the performance of Executive's material duties to Block or such subsidiary; or

(iii) Executive's commission of any act of dishonesty or breach of trust resulting or intending to result in material personal gain or enrichment of Executive at the expense of Block or any subsidiary of Block; or

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(iv) Executive's violation of Article Two or Three of this Agreement; or

(v) Executive's conviction of a misdemeanor (involving an act of moral turpitude) or a felony; or

(vi) Executive's disobedience, insubordination or failure to discharge Executive's duties; or

(vii) Executive's suspension by the Internal Revenue Service from participation in the Electronic Filing Program; or

(viii) The inability of Executive, Block, the Company, and/or an Affiliate to participate, in whole or in part, in any activity subject to governmental regulation as the result of any action or inaction on the part of Executive, as described in Section 1.02(b); or

(ix) Executive's death or total and permanent disability. The term "total and permanent disability" will have the meaning ascribed thereto under any long-term disability plan maintained by the Company or Block for executives of the Company.

(b) With Notice. Either party may terminate this Agreement for any reason, or no reason, by providing not less than 45 days' prior written notice of such termination to the other party, and, if such notice is properly given, this Agreement and Executive's employment hereunder will terminate as of the close of business on the 45th day after such notice is deemed to have been given or such later date as is specified in such notice.

(c) Termination Due to a Change of Control.

(i) If Executive terminates Executive's employment under this Agreement during the 180-day period following the date of the occurrence of a "Change of Control" of Block then, upon any such termination of Executive's employment and conditioned on Executive's execution of an agreement with the Company under which Executive releases all known and potential claims against Block, the Company, and Affiliates, the Company will provide Executive with Executive's election (the "Change of Control Election") of the same level of severance compensation and benefits as would be provided under the H&R Block Severance Plan (the "Severance Plan") as the Severance Plan exists either (A) on the date of this Agreement or (B) on Executive's last day of active employment by the Company or any Affiliate (the "Last Day of Employment"), as if Executive had incurred a "Qualifying Termination" (as such term is defined in the Severance Plan); provided, however, (1) the "Severance Period" (as such term is defined in the Severance Plan) will be 12 months, notwithstanding any provision in the Severance Plan to the contrary, (2) Executive will be credited with not less than 12 "Years of Service" (as such term is defined in the Severance Plan) for the purpose of determining severance compensation under Section 4(a)(i) of the Severance Plan as it exists on the date of this Agreement or the comparable section of the Severance Plan as it exists on Executive's Last Day of Employment, notwithstanding any provision in the Severance Plan to the contrary, (3)

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Executive will receive an amount equal to Executive's most recent payment under the H&R Block Short-Term Incentive Plan and the discretionary

short-term incentive program in lieu of any amount calculated under Section 4(a)(ii) of the Severance Plan as it exists on the date of this Agreement or the comparable section of the Severance Plan as it exists on Executive's Last Day of Employment to be paid out over the Severance Period, and (4) any nonvested portion of stock options or nonvested Restricted Shares awarded pursuant to Sections 1.03(c) and 1.03(d) of this Agreement shall immediately vest on Executive's Last Day of Employment notwithstanding any provision in the Severance Plan to the contrary. The Severance Plan as it exists on the date of this Agreement is attached hereto as Exhibit A. Executive must notify the Company in writing within 5 business days after Executive's Last Day of Employment of Executive's Change of Control Election. Severance compensation and benefits provided under this Section 1.07(c) will terminate immediately if Executive violates Sections 3.02, 3.03, or 3.05 of this Agreement or becomes reemployed with the Company or an Affiliate.

(ii) For the purpose of this subsection, a "Change of Control" means:

(A) the acquisition, other than from Block, by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")), of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 35% or more of the then outstanding voting securities of Block entitled to vote generally in the election of directors, but excluding, for this purpose, any such acquisition by Block or any of its subsidiaries, or any employee benefit plan (or related trust) of Block or its subsidiaries, or any corporation with respect to which, following such acquisition, more than 50% of the then outstanding voting securities of such corporation entitled to vote generally in the election of directors is then beneficially owned, directly or indirectly, by all or substantially all of the individuals and entities who were the beneficial owners of the voting securities of Block immediately prior to such acquisition in substantially the same proportion as their ownership, immediately prior to such acquisition, of the then outstanding voting securities of Block entitled to vote generally in the election of directors, as the case may be; or

(B) individuals who, as of the date hereof, constitute the Board of Directors of Block (generally, the "Board," and as of the date hereof, the "Incumbent Board") cease for any reason to constitute at least a majority of the Board, provided that any individual or individuals becoming a director subsequent to the date hereof, whose election, or nomination for election by Block's shareholders, was approved by a vote of at least a majority of the Board (or nominating committee of the Board) will be considered as though such individual were a member or members of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office is in connection with an actual or threatened election contest relating to the election of the directors of Block (as such terms are used in Rule 14a-11 of Regulation 14A promulgated under the Exchange Act); or

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(C) the completion of a reorganization, merger or consolidation approved by the shareholders of Block, in each case, with respect to which all or substantially all of the individuals and entities who were the respective beneficial owners of the voting securities of Block immediately prior to such reorganization, merger or consolidation do not, following such reorganization, merger or consolidation, beneficially own, directly or indirectly, more than 50% of the then outstanding voting securities entitled to vote generally in the election of directors of the corporation resulting from such reorganization, merger or consolidation, or a complete liquidation or dissolution of Block, as approved by the shareholders of Block, or the sale or other disposition of all or substantially all of the assets of Block, as approved by the shareholders of Block.

(d) Severance. Executive will receive severance compensation and

benefits as would be provided under the Severance Plan, as the same may be amended from time to time, if Executive incurs a "Qualifying Termination," as such term is defined in the Severance Plan, and executes an agreement with the Company under which Executive releases all known and potential claims against Block, the Company, and Affiliates. Such compensation and benefits will be Executive's election (the "Severance Election") of the same level of severance compensation and benefits as would be provided under the Severance Plan as such plan exists either (A) on the date of this Agreement or (B) Executive's Last Day of Employment. The Severance Plan as it exists on the date of this Agreement is attached hereto as Exhibit A. Executive must notify the Company in writing within 5 business days after Executive's Last Day of Employment of Executive's Severance Election. Severance compensation and benefits provided under this Section 1.07(d) will terminate immediately if Executive violates Sections 3.02, 3.03, or 3.05 of this Agreement or becomes reemployed with the Company or an Affiliate.

(e) Further Obligations. Upon termination of Executive's employment under this Agreement, neither the Company, Block, nor any Affiliate will have any further obligations under this Agreement and no further payments of Base Salary or other compensation or benefits will be payable by the Company, Block, or any Affiliate to Executive, except (i) as set forth in this Section 1.07, (ii) as required by the express terms of any written benefit plans or written arrangements maintained by the Company or Block and applicable to Executive at the time of such termination of Executive's employment, or (iii) as may be required by law. Any termination of this Agreement, however, will not be effective as to Sections 3.02, 3.03 and 3.05, or any other portions or provisions of this Agreement which, by their express terms, require performance by either party following termination of this Agreement.

ARTICLE TWO

CONFIDENTIALITY

2.01 - Background and Relationship of Parties. The parties hereto acknowledge (for all purposes including, without limitation, Articles Two and Three of this Agreement) that Block and its subsidiaries have been and will be engaged in a continuous program of acquisition and development respecting their businesses, present and future, and that, in connection with

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Executive's employment by the Company, Executive will be expected to have access to all information of value to the Company and Block and that Executive's employment creates a relationship of confidence and trust between Executive and Block with respect to any information applicable to the businesses of Block and its subsidiaries. Executive will possess or have unfettered access to information that has been created, developed, or acquired by Block and its subsidiaries or otherwise become known to Block and its subsidiaries and which has commercial value in the businesses in which Block and its subsidiaries have been and will be engaged and has not been publicly disclosed by Block. All information described above is hereinafter called "Proprietary Information." By way of illustration, but not limitation, Proprietary Information includes trade secrets, customer lists and information, employee lists and information, developments, systems, designs, software, databases, know-how, marketing plans, product information, business and financial information and plans, strategies, forecasts, new products and services, financial statements, budgets, projections, prices, and acquisition and disposition plans. Proprietary Information does not include any portions of such information which are now or hereafter made public by third parties in a lawful manner or made public by parties hereto without violation of this Agreement.

2.02 - Proprietary Information is Property of Block.

(a) All Proprietary Information is the sole property of Block (or the applicable subsidiary of Block) and its assigns, and Block (or the applicable subsidiary of Block) is the sole owner of all patents, copyrights, trademarks, names, and other rights in connection therewith and without regard to whether Block (or any subsidiary of Block) is at any particular time developing or marketing the same. Executive hereby assigns to Block any rights Executive may have or may acquire in such Proprietary Information. At all times during and after Executive's employment with the Company or any Affiliate, Executive will keep in strictest confidence and trust all Proprietary Information and Executive will not use or disclose any Proprietary Information

without the written consent of Block, except as may be necessary in the ordinary course of performing duties as an employee of the Company or as may be required by law or the order of any court or governmental authority.

(b) In the event of any termination of Executive's employment hereunder, Executive will promptly deliver to the Company all copies of all documents, notes, drawings, programs, software, specifications, documentation, data, Proprietary Information, and other materials and property of any nature belonging to Block or any subsidiary of Block and obtained during the course of Executive's employment with the Company. In addition, upon such termination, Executive will not remove from the premises of Block or any subsidiary of Block any of the foregoing or any reproduction of any of the foregoing or any Proprietary Information that is embodied in a tangible medium of expression.

ARTICLE THREE

NON-HIRING; NON-SOLICITATION; NO CONFLICTS; NON-COMPETITION

3.01 - General. The parties hereto acknowledge that, during the course of

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Executive's employment by the Company, Executive will have access to information valuable to the Company and Block concerning the employees of Block and its subsidiaries ("Block Employees") and, in addition to Executive's access to such information, Executive may, during (and in the course of) Executive's employment by the Company, develop relationships with such Block Employees whereby information valuable to Block and its subsidiaries concerning the Block Employees was acquired by Executive. Such information includes, without limitation: the identity, skills, and performance levels of the Block Employees, as well as compensation and benefits paid by Block to such Block Employees. Executive agrees and understands that it is important to protect Block, the Company, Affiliates and their employees, agents, directors, and clients from the unauthorized use and appropriation of Block Employee information, Proprietary Information, and trade secret business information developed, held, or used by Block, the Company, or Affiliates, and to protect Block, the Company, and Affiliates and their employees, agents, directors, and customers Executive agrees to the covenants described in this Article III.

3.02 - Non-Hiring. During the period of Executive's employment hereunder, and for a period of 1 year after Executive's Last Day of Employment, Executive may not directly or indirectly recruit, solicit, or hire any Block Employee or otherwise induce any such Block Employee to leave the employment of Block (or the applicable employer-subsidiary of Block) to become an employee of or otherwise be associated with any other party or with Executive or any company or business with which Executive is or may become associated. The running of the 1-year period will be suspended during any period of violation and/or any period of time required to enforce this covenant by litigation or threat of litigation.

3.03 - Non-Solicitation. During the period of Executive's employment hereunder and during the time Executive is receiving payments hereunder, and for 2 years after the later of Executive's Last Day of Employment or cessation of such payments, Executive may not directly or indirectly solicit or enter into any arrangement with any person or entity which is, at the time of the solicitation, a significant customer of the Company or an Affiliate for the purpose of engaging in any business transaction of the nature performed by the Company or such Affiliate, or contemplated to be performed by the Company or such Affiliate, for such customer, provided that this Section 3.03 will only apply to customers for whom Executive personally provided services while employed by the Company or an Affiliate or customers about whom or which Executive acquired material information while employed by the Company or an Affiliate. The running of the 2-year period will be suspended during any period of violation and/or any period of time required to enforce this covenant by litigation or threat of litigation.

3.04 - No Conflicts. Executive represents in good faith that, to the best of Executive's knowledge, the performance by Executive of all the terms of this Agreement will not breach any agreement to which Executive is or was a party and which requires Executive to keep any information in confidence or in trust. Executive has not brought and will not bring to the Company or Block nor will Executive use in the performance of employment responsibilities at the Company any proprietary materials or documents of a former employer that are not

generally available to the public, unless Executive has obtained express written authorization from such former employer for their possession and use. Executive has not and will not breach any obligation of confidentiality that Executive may have to former employers and Executive will fulfill all such

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obligations during Executive's employment with the Company.

3.05 - Non-Competition. During the period of Executive's employment hereunder and during the time Executive is receiving payments hereunder, and for 2 years after the later of Executive's Last Day of Employment or cessation of such payments, Executive may not engage in, or own or control any interest in (except as a passive investor in less than one percent of the outstanding securities of publicly held companies), or act as an officer, director or employee of, or consultant, advisor or lender to, any firm, corporation, partnership, limited liability company, institution, business, government agency, or entity that engages in any line of business that is competitive with any Line of Business of Block (as defined below), provided that this Section 3.05 will not apply to Executive if Executive's primary place of employment by the Company or an Affiliate as of the Last Day of Employment is in either the State of California or the State of North Dakota. "Line of Business of Block" means any line of business (including lines of business under evaluation or development) of the Company, as well as any one or more lines of business (including lines of business under evaluation or development) of any Affiliate by which Executive was employed during the two-year period preceding the Last Day of Employment, provided that, "Line of Business of Block" will in all events include, but not be limited to, the income tax return preparation business, and provided further that if Executive's employment was, as of the Last Day of Employment or during the 2-year period immediately prior to the Last Day of Employment, with HRB Management, Inc. or any successor entity thereto, "Line of Business of Block" means any line of business (including lines of business under evaluation or development) of Block and all of its subsidiaries. The running of the 2-year period will be suspended during any period of violation and/or any period of time required to enforce this covenant by litigation or threat of litigation.

3.06 - Reasonableness of Restrictions. Executive and the Company acknowledge that the restrictions contained in this Agreement are reasonable, but should any provisions of any Article of this Agreement be determined to be invalid, illegal, or otherwise unenforceable or unreasonable in scope by any court of competent jurisdiction, the validity, legality, and enforceability of the other provisions of this Agreement will not be affected thereby and the provision found invalid, illegal, or otherwise unenforceable or unreasonable will be considered by the Company and Executive to be amended as to scope of protection, time, or geographic area (or any one of them, as the case may be) in whatever manner is considered reasonable by that court and, as so amended, will be enforced.

ARTICLE FOUR

MISCELLANEOUS

4.01 - Third-Party Beneficiary. The parties hereto agree that Block is a third-party beneficiary as to the obligations imposed upon Executive under this Agreement and as to the rights and privileges to which the Company is entitled pursuant to this Agreement, and that Block is entitled to all of the rights and privileges associated with such third-party-beneficiary status.

4.02 - Entire Agreement. This Agreement constitutes the entire agreement and

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understanding between the Company and Executive concerning the subject matter hereof. No modification, amendment, termination, or waiver of this Agreement will be binding unless in writing and signed by Executive and a duly authorized officer of the Company. Failure of the Company, Block, or Executive to insist upon strict compliance with any of the terms, covenants, or conditions hereof will not be deemed a waiver of such terms, covenants, and conditions.

4.03 - Specific Performance by Executive. The parties hereto acknowledge that money damages alone will not adequately compensate the Company or Block or Executive for breach of any of the covenants and agreements herein and, therefore, in the event of the breach or threatened breach of any such covenant or agreement by either party, in addition to all other remedies available at law, in equity or otherwise, a wronged party will be entitled to injunctive relief compelling specific performance of (or other compliance with) the terms hereof.

4.04 - Successors and Assigns. This Agreement is binding upon Executive and the heirs, executors, assigns and administrators of Executive or Executive's estate and property and will inure to the benefit of the Company, Block and their successors and assigns. Executive may not assign or transfer to others the obligation to perform Executive's duties hereunder. The Company may assign this Agreement to an Affiliate with the consent of Executive, in which case, after such assignment, the "Company" means the Affiliate to which this Agreement has been assigned.

4.05 - Withholding Taxes. From any payments due hereunder to Executive from the Company, there will be withheld amounts reasonably believed by the Company to be sufficient to satisfy liabilities for federal, state, and local taxes and other charges and customary withholdings. Executive remains primarily liable to such authorities for such taxes and charges to the extent not actually paid by the Company. This Section 4.05 does not affect the Company's obligation to "gross up" any relocation benefits paid to Executive pursuant to Subsection 1.04(b).

4.06 - Indemnification. To the fullest extent permitted by law and Block's Bylaws, the Company hereby indemnifies during and after the period of Executive's employment hereunder Executive from and against all loss, costs, damages, and expenses including, without limitation, legal expenses of counsel selected by the Company to represent the interests of Executive (which expenses the Company will, to the extent so permitted, advance to executive as the same are incurred) arising out of or in connection with the fact that Executive is or was a director, officer, employee, or agent of the Company or Block or serving in such capacity for another corporation at the request of the Company or Block. Notwithstanding the foregoing, the indemnification provided in this Section 4.06 will not apply to any loss, costs, damages, and expenses arising out of or relating in any way to any employment of Executive by any former employer or the termination of any such employment.

4.07 - Right to Offset. To the extent not prohibited by applicable law and in addition to any other remedy, the Company has the right but not the obligation to offset any amount that Executive owes the Company under this Agreement against any amounts due Executive by Block, the Company, or Affiliates.

4.08 - Waiver of Jury Trial. Both parties to this Agreement, and Block, as a third-

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party beneficiary pursuant to Section 4.01 of this Agreement, waive any and all right to any trial by jury in any action or proceeding directly or indirectly related to this Agreement and Executive's employment hereunder.

4.09 - Notices. All notices required or desired to be given hereunder must be in writing and will be deemed served and delivered if delivered in person or mailed, postage prepaid to Executive at: 71 Avenue of Champions, Nicholasville, KY 40356; and to the Company at: 4400 Main Street, Kansas City, Missouri 64111, Attn: President, with a copy to H&R Block, Inc., 4400 Main Street, Kansas City, Missouri 64111, Attn: Corporate Secretary; or to such other address and/or person designated by either party in writing to the other party. Any notice given by mail will be deemed given as of the date it is so mailed and postmarked or received by a nationally recognized overnight courier for delivery.

4.10 - Counterparts. This Agreement may be signed in counterparts and delivered by facsimile transmission confirmed promptly thereafter by actual delivery of executed counterparts.

Executed as a sealed instrument under, and to be governed by, construed and enforced in accordance with, the laws of the State of Missouri.

EXECUTIVE:

Dated: 12/13/02

/s/ Nana Mensah

Nana Mensah

Accepted and Agreed:

H&R Block Services, Inc.,
a Missouri corporation

By: /s/ Jeffery W. Yabuki

Jeffery W. Yabuki, President

Dated: 1-2-03

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EXHIBIT A

H&R BLOCK SEVERANCE PLAN
(AS AMENDED APRIL 15, 2002)

1. PURPOSE. The H&R Block Severance Plan is a welfare benefit plan established by HRB Management, Inc., an indirect subsidiary of H&R Block, Inc., for the benefit of certain subsidiaries of H&R Block, Inc. in order to provide severance compensation and benefits to certain employees of such subsidiaries whose employment is involuntarily terminated under the conditions set forth herein. This document constitutes both the plan document and the summary plan description required by the Employee Retirement Income Security Act of 1974.

2. DEFINITIONS.

(a) "Company" means H&R Block, Inc.

(b) "Employee" means a regular full-time or part-time, active employee of a Participating Employer whose employment with a Participating Employer is not subject to an employment contract that contains a provision that includes severance benefits. This definition expressly excludes seasonal, temporary and inactive employees of a Participating Employer and employees who are customarily employed by a Participating Employer less than 20 hours per week.

(c) "ERISA" means the Employee Retirement Income Security Act of 1974, as amended.

(d) "Hour of Service" means each hour for which an individual was entitled to compensation as a regular full-time or part-time employee from a subsidiary of the Company.

(e) "Line of Business of the Company" with respect to a Participant means any line of business of the Participating Employer by which the Participant was employed as of the Termination Date, as well as any one or more lines of business of any other subsidiary of the Company by which the Participant was employed during the two-year period preceding the Termination Date, provided that, if Participant's employment was, as of the Termination Date or during the two-year period immediately prior to the Termination Date, with HRB Management, Inc. or any successor entity thereto, "Line of Business of the Company" shall mean any lines of business of the Company and all of its subsidiaries.

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(f) "Participant" means an Employee who has incurred a Qualifying Termination and has signed a Release that has not been revoked during any revocation period provided under the Release.

(g) "Participating Employer" means a direct or indirect subsidiary of the

Company (i) listed on Schedule A, attached hereto, which may change from time to time to reflect new Participating Employers or withdrawing Participating Employers, and (ii) approved by the Plan Sponsor for participation in the Plan.

(h) "Plan" means the "H&R Block Severance Plan," as stated herein, and as may be amended from time to time.

(i) "Plan Administrator" and "Plan Sponsor" means HRB Management, Inc. The address and telephone number of HRB Management, Inc. is 4400 Main Street, Kansas City, Missouri 64111, (816) 753-6900. The Employer Identification Number assigned to HRB Management, Inc. by the Internal Revenue Service is 43-1632589.

(j) "Qualifying Termination" means the involuntary termination of an Employee, but does NOT include a termination resulting from:

(i) the termination of an Employee as a result of the elimination of the Employee's position where the Employee was offered another position with a subsidiary of the Company at a comparable salary and benefit level, or where the termination results from a sale of assets or other corporate acquisition;

(ii) the redefinition of an Employee's position to a lower salary rate;

(iii) the termination of an Employee for cause; or

(iv) the non-renewal of employment contracts.

(k) "Release" means that agreement signed by and between an Employee who is eligible to participate in the Plan and the Employee's Participating Employer under which the Employee releases all known and potential claims against the Employee's Participating Employer and all of such employer's parents, subsidiaries, and affiliates.

(l) "Release Date" means, with respect to a Release that includes a revocation period, the date immediately following the expiration date of the revocation period in the Release that has been fully executed by both parties. "Release Date" means, with respect to a Release that does not include a

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revocation period, the date the Release has been fully executed by both parties.

(m) "Severance Period" means the period of time during which a Participant may receive benefits under this Plan. The Severance Period with respect to a Participant begins on the Termination Date. A Participant's Severance Period will be the shorter of (i) 12 months or (ii) a number of months equal to the whole number of Years of Service determined under Section 2(p), unless earlier terminated in accordance with Section 8 of the Plan.

(n) "Termination Date" means the date the Employee severs employment with a Participating Employer.

(o) "Monthly Salary" means -

(i) with respect to an Employee paid on a salary basis, the Employee's current annual salary divided by 12; and

(ii) with respect to an Employee paid on an hourly basis, the Employee's current hourly rate times the number of hours he or she is regularly scheduled to work per week multiplied by 52 and then divided by 12.

(p) "Year of Service" means each period of 12 consecutive months ending on the Employee's employment anniversary date during which the Employee had at least 1,000 Hours of Service. In determining a Participant's Years of Service, the Participant will be credited with a partial Year of Service for his or her final period of employment commencing on his or her most recent employment anniversary date equal to a fraction calculated in

accordance with the following formula:

$$\frac{\text{Number of days since most recent employment anniversary date}}{\text{-----}} \\ 365$$

Despite an Employee's Years of Service calculated in accordance with the above, an Employee whose pay grade at his or her Participating Employer fits in the following categories at the time of the Qualifying Termination will be credited with no less than the specified Minimum Years of Service and no more than the specified Maximum Years of Service listed in the following table as applicable to such pay grade:

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PAY GRADE -----	MINIMUM YEARS OF SERVICE -----	MAXIMUM YEARS OF SERVICE -----
81-89 and 231-235	6	18
65-80, 140-145, 185-190, and 218-230	3	18
57-64, 115-135, 175-180, and 210-217	1	18
48-56, 100-110, 170, and 200-209	1	18

Notwithstanding the above, if an Employee has received credit for Years of Service under this Plan or under any previous plan, program, or agreement for the purpose of receiving severance benefits before a Qualifying Termination, such Years of Service will be disregarded when calculating Years of Service for such Qualifying Termination under the Plan; provided, however, that if such severance benefits were terminated prior to completion because the Employee was rehired by any subsidiary of the Company then the Employee will be re-credited with full Years of Service for which severance benefits were not paid in full or in part because of such termination..

3. ELIGIBILITY AND PARTICIPATION. All Employees who incur a Qualifying Termination and sign a Release are eligible to participate in the Plan. An eligible Employee will become a Participant in the Plan as of the Termination Date.

4. SEVERANCE COMPENSATION.

(a) Amount. Subject to Section 8, each Participant will receive during the Severance Period from the applicable Participating Employer aggregate severance compensation equal to:

(i) the Participant's Monthly Salary multiplied by the Participant's Years of Service; plus

(ii) one-twelfth of the Participant's target payout under the Short-Term Incentive Program of the Participating Employer in effect at the time of his or her Termination Date multiplied by the Participant's Years of Service; plus

(iii) an amount to be determined by the Participating Employer at its sole discretion, which amount may be zero.

(b) Timing of Payments. Except as stated in Section 4(c), and subject to Section 8,

(i) the sum of any amounts determined under Sections 4(a)(i) and 4(a)(ii) of the Plan will be paid in semi-monthly or bi-weekly installments (the timing and amount of each installment as determined by the Participating Employer) during the Severance Period beginning after the later of the Termination Date or the Release Date; and

(ii) any amounts determined under Section 4(a)(iii) of the Plan will be paid in one lump sum within 15 days after the later of the Termination Date or the Release Date, unless otherwise agreed in writing by the Participating Employer and Participant or otherwise required by law.

(c) Death. In the event of the Participant's death prior to receiving all payments due under this Section 4, any unpaid severance compensation will be paid (i) in the same manner as are death benefits under the Participant's basic life insurance coverage provided by the Participant's Participating Employer, and (ii) in accordance with the Participant's beneficiary designation under such coverage. If no such coverage exists, or if no beneficiary designation exists under such coverage as of the date of death of the Participant, the severance compensation will be paid to the Participant's estate in one-lump sum.

5. HEALTH AND WELFARE BENEFITS.

(a) Benefits. In addition to the severance compensation provided pursuant to Section 4 of the Plan, a Participant may continue to participate in the following health and welfare benefits provided by his or her Participating Employer during the Severance Period on the same basis as employees of the Participating Employer:

(i) medical;

(ii) dental;

(iii) vision;

(iv) employee assistance;

(v) medical expense reimbursement and dependent care expense reimbursement benefits provided under a cafeteria plan;

(vi) life insurance (basic and supplemental); and

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(vii) accidental death and dismemberment insurance (basic and supplemental).

For the purposes of any of the above-described benefits provided under a Participating Employer's cafeteria plan, a Qualifying Termination constitutes a "change in status" or "life event."

(b) Payment and Expiration. Payment of the Participant's portion of contribution or premiums for such selected benefits will be withheld from any severance compensation payments paid to the Participant under this Plan. The Participating Employer's partial subsidization of such coverages will remain in effect until the earlier of:

(i) the expiration or earlier termination of the Employee's Severance Period, after which time the Participant may be eligible to elect to continue coverage of those benefits listed above that are provided under group health plans in accordance with his or her rights under Section 4980B of the Internal Revenue Code; or

(ii) the Participant's attainment of or eligibility to attain health and welfare benefits through another employer after which time the Participant may be eligible to elect to continue coverage of those benefits listed above that are provided under group health plans in accordance with his or her rights under Section 4980B of the Internal Revenue Code.

6. STOCK OPTIONS.

(a) Accelerated Vesting. Any portion of any outstanding incentive stock options and nonqualified stock options that would have vested during the 18-month period following the Termination Date had the Participant remained an employee with the Participating Employer during such 18-month period will vest as of the Termination Date. This Section 6(a) applies only to options (i) granted to the Participant under the Company's 1993 Long-Term Executive Compensation Plan, or any successor plan to its 1993 Long-Term Executive Compensation Plan, not less than 6 months prior to his or her Termination Date and (ii) outstanding at the close of business on such Termination Date. The determination of accelerated vesting under this Section 6(a) shall be made as of the Termination Date and shall be based solely on any time-specific vesting schedule included in the applicable stock option agreement without regard to any accelerated vesting provision not related to the Plan in such agreement.

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(b) Post-Termination Exercise Period. Subject to the expiration dates and other terms of the applicable stock option agreements, the Participant may elect to have the right to exercise any outstanding incentive stock options and nonqualified stock options granted prior to the Termination Date to the Participant under the Company's 1984 Long-Term Executive Compensation Plan, its 1993 Long-Term Executive Compensation Plan, or any successor plan to its 1993 Long-Term Executive Compensation Plan that are vested as of the Termination Date (or, if later, the Release Date), whether due to the operation of Section 6(a), above, or otherwise, at any time during the Severance Period and, except in the event that the Severance Period terminates pursuant to Section 8(a), for a period up to 3 months after the end of the Severance Period (notwithstanding Section 8). Any such election shall apply to all outstanding incentive stock options and nonqualified stock options, will be irrevocable and must be made in writing and delivered to the Plan Administrator on or before the later of the Termination Date or Release Date. If the Participant fails to make an election, the Participant's right to exercise such options will expire 3 months after the Termination Date.

(c) Stock Option Agreement Amendment. The operation of Sections 6(a) and 6(b), above, are subject to the Participant's execution of an amendment to any affected stock option agreements.

7. OUTPLACEMENT SERVICES. In addition to the benefits described above, career transition counseling or outplacement services may be provided upon the Participant's Qualifying Termination. Such outplacement service will be provided at the Participating Employer's sole discretion. Outplacement services are designed to assist employees in their search for new employment and to facilitate a smooth transition between employment with the Participating Employer and employment with another employer. Any outplacement services provided under this Plan will be provided by an outplacement service chosen by the Participating Employer. The Participant is not entitled to any monetary payment in lieu of outplacement services.

8. TERMINATION OF BENEFITS. Any right of a Participant to severance compensation and benefits under the Plan, and all obligations of his or her Participating Employer to pay any unpaid severance compensation or provide benefits under the Plan will terminate as of the day:

(a) The Participant has engaged in any conduct described in Sections 8(a)(i), 8(a)(ii), 8(a)(iii) or 8(a)(iv), below, as the same may be limited pursuant to Section 8(a)(vi).

(i) During the Severance Period, the Participant's engagement in, ownership of, or control of any interest in (except as a passive investor in

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less than one percent of the outstanding securities of publicly held companies), or acting as an officer, director or employee of, or consultant, advisor or lender to, any firm, corporation, partnership, limited liability company, institution, business,

government agency, or entity that engages in any line of business that is competitive with any Line of Business of the Company, provided that this Section 8(a)(i) shall not apply to the Participant if the Participant's primary place of employment by a subsidiary of the Company as of the Termination Date is in either the State of California or the State of North Dakota.

(ii) During the Severance Period, the Participant employs or solicits for employment by any employer other than a subsidiary of the Company any employee of any subsidiary of the Company, or recommends any such employee for employment to any employer (other than a subsidiary of the Company) at which the Participant is or intends to be (A) employed, (B) a member of the Board of Directors, (C) a partner, or (D) providing consulting services.

(iii) During the Severance Period, the Participant directly or indirectly solicits or enters into any arrangement with any person or entity which is, at the time of the solicitation, a significant customer of a subsidiary of the Company for the purpose of engaging in any business transaction of the nature performed by such subsidiary, or contemplated to be performed by such subsidiary, for such customer, provided that this Section 8(a)(iii) shall only apply to customers for whom the Participant personally provided services while employed by a subsidiary of the Company or customers about whom or which the Participant acquired material information while employed by a subsidiary of the Company.

(iv) During the Severance Period, the Participant misappropriates or improperly uses or discloses confidential information of the Company and/or its subsidiaries.

(v) If the Participant engaged in any of the conduct described in Sections 8(a)(i), 8(a)(ii), 8(a)(iii) or 8(a)(iv) during or after Participant's term of employment with a Participating Employer, but prior to the commencement of the Severance Period, and such engagement becomes known to the Participating Employer during the Severance Period, such conduct shall be deemed, for purposes of Sections 8(a)(i), 8(a)(ii), 8(a)(iii) or 8(a)(iv) to have occurred during the Severance Period.

(vi) If the Participant is a party to an employment contract with a Participating Employer that contains a covenant or covenants relating to the Participant's engagement in conduct that is the same as or

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substantially similar to the conduct described in any of Sections 8(a)(i), 8(a)(ii), 8(a)(iii) or 8(a)(iv), and any specific conduct regulated in such covenant or covenants in such employment contract is more limited in scope geographically or otherwise than the corresponding specific conduct described in any of such Sections 8(a)(i), 8(a)(ii), 8(a)(iii) or 8(a)(iv), then the corresponding specific conduct addressed in the applicable Section 8(a)(i), 8(a)(ii), 8(a)(iii) or 8(a)(iv) shall be limited to the same extent as such conduct is limited in the employment contract and the Participating Employer's rights and remedy with respect to such conduct under this Section 8 shall apply only to such conduct as so limited.

(b) The Participant is rehired by his or her Participating Employer or hired by any other subsidiary of the Company in any position other than a position classified as seasonal by such employer.

9. AMENDMENT AND TERMINATION. The Plan Sponsor reserves the right to amend the Plan or to terminate the Plan and all benefits hereunder in their entirety at any time.

10. ADMINISTRATION OF PLAN. The Plan Administrator has the power and discretion to construe the provisions of the Plan and to determine all questions relating to the eligibility of employees of Participating Employers to become Participants in the Plan, and the amount of benefits to which any Participant may be entitled thereunder in accordance with the Plan. Not in limitation, but

in amplification of the foregoing and of the authority conferred upon the Plan Administrator, the Plan Sponsor specifically intends that the Plan Administrator have the greatest permissible discretion to construe the terms of the Plan and to determine all questions concerning eligibility, participation and benefits. Any such decision made by the Plan Administrator will be binding on all Employees, Participants, and Beneficiaries, and is intended to be subject to the most deferential standard of judicial review. Such standard of review is not to be affected by any real or alleged conflict of interest on the part of the Plan Administrator. The decision of the Plan Administrator upon all matters within the scope of its authority will be final and binding.

11. CLAIMS PROCEDURES.

(a) FILING A CLAIM FOR BENEFITS. Participants are not required to submit claim forms to initiate payment of benefits under this Plan. To make a claim for benefits, individuals other than Participants who believe they are entitled to receive benefits under this Plan and Participants who believe they have been denied certain benefits under the Plan must write to the Plan Administrator. These individuals and such Participants are hereinafter

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referred to in this Section 11 as "Claimants." Claimants must notify the Plan Administrator if they will be represented by a duly authorized representative with respect to a claim under the Plan.

(b) INITIAL REVIEW OF CLAIMS. The Plan Administrator will evaluate a claim for benefits under the Plan. The Plan Administrator may solicit additional information from the Claimant if necessary to evaluate the claim. If the Plan Administrator denies all or any portion of the claim, the Claimant will receive, within 90 days after the receipt of the written claim, a written notice setting forth:

(i) the specific reason for the denial;

(ii) specific references to pertinent Plan provisions on which the Plan Administrator based its denial;

(iii) a description of any additional material and information needed for the Claimant to perfect his or her claim and an explanation of why the material or information is needed; and

(iv) that any appeal the Claimant wishes to make of the adverse determination must be in writing to the Plan Administrator within 60 days after receipt of the notice of denial of benefits. The notice must advise the Claimant that his or her failure to appeal the action to the Plan Administrator in writing within the 60-day period will render the Plan Administrator's determination final, binding and conclusive. The notice must further advise the Claimant of his or her right to bring a civil action under Section 502(a) of ERISA following the exhaustion of the claims procedures described herein.

(c) APPEAL OF DENIED CLAIM AND FINAL DECISION. If the Claimant should appeal to the Plan Administrator, the Claimant, or his or her duly authorized representative, must submit, in writing, whatever issues and comments the Claimant or his or her duly authorized representative feels are pertinent. The Claimant, or his or her duly authorized representative, may review and request pertinent Plan documents. The Plan Administrator will reexamine all facts related to the appeal and make a final determination as to whether the denial of benefits is justified under the circumstances. The Plan Administrator will advise the Claimant in writing of its decision within 60 days of the Claimant's written request for review, unless special circumstances (such as a hearing) require an extension of time, in which case the Plan Administrator will make a decision as soon as possible, but no later than 120 days after its receipt of a request for review.

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12. PLAN FINANCING. The benefits to be provided under the Plan will be paid by

the applicable Participating Employer, as incurred, out of the general assets of such Participating Employer.

13. GENERAL INFORMATION. The Plan's records are maintained on a calendar year basis. The Plan Number is 509. The Plan is self-administered and is considered a severance plan.

14. GOVERNING LAW. The Plan is established in the State of Missouri. To the extent federal law does not apply, any questions arising under the Plan will be determined under the laws of the State of Missouri.

15. ENFORCEABILITY; SEVERABILITY. If a court of competent jurisdiction determines that any provision of the Plan is not enforceable, then such provision shall be enforceable to the maximum extent possible under applicable law, as determined by such court. The invalidity or unenforceability of any provision of the Plan, as determined by a court of competent jurisdiction, will not affect the validity or enforceability of any other provision of the Plan and all other provisions will remain in full force and effect.

16. WITHHOLDING OF TAXES. The applicable Participating Employer may withhold from any benefit payable under the Plan all federal, state, city or other taxes as may be required pursuant to any law, governmental regulation or ruling. The Participant shall pay upon demand by the Company or the Participating Employer any taxes required to be withheld or collected by the Company or the Participating Employer upon the exercise by the Participant of a nonqualified stock option granted under the Company's 1984 Long-Term Executive Compensation Plan or its 1993 Long-Term Executive Compensation Plan. If the Participant fails to pay any such taxes associated with such exercise upon demand, the Participating Employer shall have the right, but not the obligation, to offset such taxes against any unpaid severance compensation under this Plan.

17. NOT AN EMPLOYMENT AGREEMENT. Nothing in the Plan gives an Employee any rights (or imposes any obligations) to continued employment by his or her Participating Employer or other subsidiary of the Company, nor does it give such Participating Employer any rights (or impose any obligations) for the continued performance of duties by the Employee for the Participating Employer or any other subsidiary of the Company.

18. NO ASSIGNMENT. The Employee's right to receive payments of severance compensation and benefits under the Plan are not assignable or transferable, whether by pledge, creation of a security interest, or otherwise. In the event of any attempted assignment or transfer contrary to this section, the applicable Participating Employer will have no liability to pay any amount so attempted to be

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assigned or transferred.

19. SERVICE OF PROCESS. The Secretary of the Plan Administrator is designated as agent for service of legal process. Service of legal process may be made upon the Secretary of the Plan Administrator at:

HRB Management, Inc.
Attn: Secretary
4400 Main Street
Kansas City, Missouri 64111

20. STATEMENT OF ERISA RIGHTS. As a participant in the Plan, you are entitled to certain rights and protections under ERISA, which provides that all Plan Participants are entitled to:

(a) examine without charge, at the Plan Administrator's office, all documents governing the Plan and a copy of the latest annual report (Form 5500 Series) filed by the Plan with the U.S. Department of Labor and available at the Public Disclosure Room of the Pension and Welfare Benefit Administration;

(b) obtain, upon written request to the Plan Administrator, copies of documents governing the operation of the Plan, copies of the latest annual report (Form 5500 Series) and an updated summary plan description. The Plan Administrator may make a reasonable charge for the copies; and

(c) receive a summary of the Plan's annual financial report if required to be filed for the year. The Plan Administrator is required by law to furnish each participant with a copy of this summary annual report if an annual report is required to be filed for the year.

In addition to creating rights for Plan Participants, ERISA imposes duties upon the people who are responsible for the operation of the Plan. The people who operate your Plan, called "fiduciaries" of the Plan, have a duty to do so prudently and in the interest of you and other Plan Participants and beneficiaries. No one, including your Participating Employer or any other person, may fire you or otherwise discriminate against you in any way to prevent you from obtaining a welfare benefit or exercising your rights under ERISA.

If your claim for a welfare benefit is denied or ignored, in whole or in part, you have the right to know why this was done, to obtain copies of documents relating to the decision without charge, and to appeal any denial, all within certain time schedules.

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Under ERISA, there are steps you can take to enforce the above rights. For instance, if you request a copy of plan documents or the latest annual report from the Plan and do not receive them within 30 days, you may file suit in a Federal court. In such a case, the court may require the Plan Administrator to provide the materials to you and pay you up to \$110 a day until you receive the materials, unless the materials were not sent because of reasons beyond the control of the Plan Administrator. If you have a claim for benefits that is denied or ignored, in whole or in part, you may file suit in a state or Federal court. If it should happen that you are discriminated against for asserting your rights, you may seek assistance from the U. S. Department of Labor, or you may file suit in a Federal court. The court will decide who should pay court costs and legal fees. If you are successful, the court may order the person you have sued to pay these costs and fees. If you lose, the court may order you to pay these costs and fees, for example, if it finds your claim is frivolous.

If you have any questions about the Plan, you should contact the Plan Administrator. If you have questions about this statement or about your rights under ERISA, or if you need assistance in obtaining documents from the Plan Administrator, you should contact the nearest office of the Pension and Welfare Benefits Administration, U.S. Department of Labor, listed in your telephone directory or the Division of Technical Assistance and Inquiries, Pension and Welfare Benefits Administration, U.S. Department of Labor, 200 Constitution Avenue N.W., Washington, D.C. 20210. You may also obtain certain publications about your rights and responsibilities under ERISA by calling the publications hotline of the Pension and Welfare Benefits Administration.

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IN WITNESS WHEREOF, HRB Management, Inc. adopts this Severance Plan effective this 23rd day of April, 2001.

HRB MANAGEMENT, INC.

/s/ Mark A. Ernst

Mark A. Ernst
President and Chief Executive Officer

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SCHEDULE A

PARTICIPATING EMPLOYERS

Block Financial Corporation

Financial Marketing Services, Inc.

Franchise Partner, Inc.

H&R Block Investments, Inc.

H&R Block Services, Inc. and its U.S.-based direct and indirect subsidiaries

HRB Business Services, Inc.

HRB Management, Inc.

HRB Retail Services, Inc.

Olde Financial Corporation and its U.S.-based direct and indirect subsidiaries,
which subsidiaries include H&R Block Financial Advisors, Inc.

SEVERANCE AND RELEASE AGREEMENT

THIS AGREEMENT ("this Agreement") is entered into as of the 14th day of December, 2002, by and between HRB MANAGEMENT, INC., a Missouri corporation ("HRB"), and Stephanie R. Otto ("Otto").

WHEREAS, HRB and Otto are parties to an Employment Agreement dated January 28, 2002 (the "Employment Agreement");

WHEREAS, Otto has been given notice that HRB will terminate the Employment Agreement and Otto's employment thereunder on December 14, 2002, pursuant to and in accordance with sections 1.08(b) and 4.09 of the Employment Agreement;

WHEREAS, such involuntary termination of Otto's employment constitutes a "Qualifying Termination," as such term is used in the Employment Agreement; and

WHEREAS, pursuant to Section 1.08(d) of the Employment Agreement, as a result of such Qualifying Termination, Otto will be offered severance benefits in exchange for Otto's release of all known and potential claims against H&R Block, Inc. ("Block"), HRB, and each other direct or indirect subsidiary of Block (Block and each such other subsidiary an "Affiliate of HRB").

NOW, THEREFORE, in consideration of the premises and the mutual covenants contained herein, Otto and HRB agree as follows:

1. Severance.

Otto's termination of employment constitutes a Qualifying Termination. As such, the provisions of Section 1.08(d) of the Employment Agreement will apply. The provisions of Section 1.08(d) of the Employment Agreement read as follows:

"1.08 - Termination of Employment.

(d) Severance. Executive will receive severance compensation and benefits as would be provided under the Severance Plan, as the same may be amended from time to time, if Executive incurs a "Qualifying Termination," as such term is defined in the Severance Plan, and executes an agreement with the Company under which Executive releases all known and potential claims against Block, the Company, and Affiliates. Such compensation and benefits will be Executive's election (the "Severance Election") of the same level of severance compensation and benefits as would be provided under the Severance Plan as such plan exists either (A) on the date of this Agreement or (B) Executive's Last Day of Employment; provided, however, (1) the "Severance Period" (as such term is

defined in the Severance Plan) will be 18 months, notwithstanding any provision in the Severance Plan to the contrary, and (2) Executive will be credited with no less than 18 "Years of Service" (as such term is defined in the Severance Plan) for the purpose of determining severance compensation under Section 4(a) (i) of the Severance Plan as it exists on the date of this Agreement or the comparable section of the Severance Plan as it exists on Executive's Last Day of Employment, notwithstanding any provision in the Severance Plan to the contrary. The Severance Plan as it exists on the date of this Agreement is attached hereto as Exhibit A. Executive must notify the Company in writing within 5 business days after Executive's Last Day of Employment of Executive's Severance Election. Severance compensation and benefits provided under this Section 1.08(d) will terminate immediately if Executive violates Sections 3.02, 3.03, or 3.05 of this Agreement or becomes reemployed with the Company or an Affiliate."

A copy of the Severance Plan as it exists on December 14, 2002, is attached to this Agreement as Exhibit A.

2. Release by Otto. In consideration of HRB's promises and agreements set forth in this Agreement, Otto for herself and for her relations,

heirs, legal representatives and assigns unconditionally releases and forever discharges HRB, Block, and all Affiliates of HRB, their respective present and past directors, officers, employees, agents, predecessors, successors, and assigns of and from any and all claims, demands, actions, causes of action and suits of any kind whatsoever, foreseen or unforeseen, known or unknown, whether under federal or state statute, local regulation or at common law, or which thereafter arise from any matter, fact, circumstance, event, happening or thing whatsoever occurring or failing to occur prior to the date of this Agreement involving Otto's employment by HRB or any Affiliate of HRB including, without limitation, Otto's hiring, compensation earned as of or before the date of this Agreement, the termination of Otto's responsibilities as an officer of HRB and as a director and/or officer of each Affiliate of HRB, Otto's termination as an employee of HRB, other obligations of HRB or any Affiliate or HRB, and further including, but not limited to, any claims for race, sex or age discrimination under the Age Discrimination in Employment Act, as amended ("ADEA"), Title VII of the Civil Rights Act of 1964, the 1991 amendments of such Civil Rights Act, the Americans with Disabilities Act, as amended, and all other federal and state statutes and common law doctrines.

3. Consideration of Release of ADEA Claims. With regard to the waiver/release of rights or claims under the ADEA, Otto acknowledges and understands that this is a legal document and that she is legally entitled to, and has been offered, a period of twenty-one (21) days (the "Consideration Period") to consider the waiver/release of such rights or claims under this Agreement before signing it. After signing this Agreement, Otto may revoke the waiver/release of rights or claims under the ADEA by giving written notice ("Revocation Notice") to Mark A. Ernst, 4400 Main Street, Kansas City, Missouri 64111, within seven (7) days after the date of signing (such seven (7) day period, the "Revocation Period" and such date

of signing, the "Signing Date"). For such revocation to be effective, the Revocation Notice must be received no later than 5:00 p.m., Kansas City, Missouri time, on the seventh (7th) day after the Signing Date. If Otto provides the Revocation Notice to HRB, this Agreement will be null, void and unenforceable by either party.

4. Acknowledgements. OTTO ACKNOWLEDGES THAT HRB HAS ADVISED HER TO CONSULT WITH AN ATTORNEY PRIOR TO SIGNING THIS AGREEMENT OR BEFORE THE EXPIRATION OF THE REVOCATION PERIOD. OTTO SPECIFICALLY ACKNOWLEDGES AND AGREES THAT THE FULL TWENTY-ONE (21) DAY CONSIDERATION PERIOD HAS LAPSED. OTTO ACKNOWLEDGES AND AGREES THAT UPON SUCH CONSIDERATION SHE HAS DECIDED TO WAIVE AND RELEASE ANY CLAIMS THAT SHE MAY HAVE UNDER THE ADEA, PURSUANT TO THE TERMS OF THIS AGREEMENT.

5. Third-Party Beneficiary. The parties hereto agree that Block is a third-party beneficiary as to the obligations imposed upon Otto under the Employment Agreement and this Agreement and as to the rights and privileges to which HRB is entitled pursuant to the Employment Agreement and this Agreement, and that Block is entitled to all of the rights and privileges associated with such third-party-beneficiary status.

6. Entire Agreement. This Agreement and the post-termination obligations of the Employment Agreement constitute the entire agreement and understanding between HRB and Otto concerning the subject matter hereof. No modification, amendment, termination, or waiver of this Agreement will be binding unless in writing and signed by Otto and a duly authorized officer of HRB. Failure of HRB, Block or Otto to insist upon strict compliance with any of the terms, covenants, or conditions hereof will not be deemed a waiver of such terms, covenants, and conditions.

7. Successors and Assigns. This Agreement and each of its provisions will be binding upon Otto and the heirs, executors, successors and administrators of Otto or her estate and property, and will inure to the benefit of HRB, Block and their successors and assigns. Otto may not assign or transfer to others the obligation to perform her duties hereunder.

8. Specific Performance by Otto. The parties acknowledge that money damages alone will not adequately compensate HRB or Block for breach of any of the covenants and agreements herein and any of the post-termination obligations of the Employment Agreement and, therefore, in the event of the breach or threatened breach of any such covenant, agreement, or obligation by either party, in addition to all other remedies available at law, in equity or otherwise, a wronged party will be entitled to injunctive relief compelling

specific performance of (or other compliance with) the terms hereof.

9. Notices. Notices hereunder will be deemed delivered five days following deposit thereof in the United States mails (postage prepaid) addressed to Otto at: 9503 W. Prentice Avenue, Littleton, CO 80123; and to HRB at: 4400 Main Street, Kansas City, Missouri 64111; Attn: Mark A. Ernst, with a copy to James H. Ingraham, Esq., H&R Block, Inc., 4400 Main Street, Kansas City, Missouri 64111; or to such other address and/or person designated by any party in

writing to the other parties.

10. Counterparts. This Agreement may be signed in counterparts and delivered by facsimile transmission confirmed promptly thereafter by actual delivery of executed counterparts.

Executed as a sealed instrument under, and to be governed by, construed and enforced in accordance with, the laws of the State of Missouri.

OTTO:

Dated: 12-14-02

/s/ Stephanie R. Otto

Stephanie R. Otto

Accepted and Agreed:

HRB MANAGEMENT, INC.
a Missouri corporation

By: /s/ Mark A. Ernst

Mark A. Ernst
President and Chief Executive Officer

Dated: 16 Dec. 2002

EXHIBIT A

H&R BLOCK SEVERANCE PLAN
(AS AMENDED APRIL 15, 2002)

1. PURPOSE. The H&R Block Severance Plan is a welfare benefit plan established by HRB Management, Inc., an indirect subsidiary of H&R Block, Inc., for the benefit of certain subsidiaries of H&R Block, Inc. in order to provide severance compensation and benefits to certain employees of such subsidiaries whose employment is involuntarily terminated under the conditions set forth herein. This document constitutes both the plan document and the summary plan description required by the Employee Retirement Income Security Act of 1974.

2. DEFINITIONS.

- (a) "Company" means H&R Block, Inc.
- (b) "Employee" means a regular full-time or part-time, active employee of a Participating Employer whose employment with a Participating Employer is not subject to an employment contract that contains a provision that includes severance benefits. This definition expressly excludes seasonal, temporary and inactive employees of a Participating Employer and employees who are customarily employed by a Participating Employer less than 20 hours per week.
- (c) "ERISA" means the Employee Retirement Income Security Act of 1974, as amended.
- (d) "Hour of Service" means each hour for which an individual was entitled to compensation as a regular full-time or part-time employee from a subsidiary of the Company.
- (e) "Line of Business of the Company" with respect to a Participant means

any line of business of the Participating Employer by which the Participant was employed as of the Termination Date, as well as any one or more lines of business of any other subsidiary of the Company by which the Participant was employed during the two-year period preceding the Termination Date, provided that, if Participant's employment was, as of the Termination Date or during the two-year period immediately prior to the Termination Date, with HRB Management, Inc. or any successor entity thereto, "Line of Business of the Company" shall mean any lines of business of the Company and all of its subsidiaries.

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(f) "Participant" means an Employee who has incurred a Qualifying Termination and has signed a Release that has not been revoked during any revocation period provided under the Release.

(g) "Participating Employer" means a direct or indirect subsidiary of the Company (i) listed on Schedule A, attached hereto, which may change from time to time to reflect new Participating Employers or withdrawing Participating Employers, and (ii) approved by the Plan Sponsor for participation in the Plan.

(h) "Plan" means the "H&R Block Severance Plan," as stated herein, and as may be amended from time to time.

(i) "Plan Administrator" and "Plan Sponsor" means HRB Management, Inc. The address and telephone number of HRB Management, Inc. is 4400 Main Street, Kansas City, Missouri 64111, (816) 753-6900. The Employer Identification Number assigned to HRB Management, Inc. by the Internal Revenue Service is 43-1632589.

(j) "Qualifying Termination" means the involuntary termination of an Employee, but does NOT include a termination resulting from:

(i) the termination of an Employee as a result of the elimination of the Employee's position where the Employee was offered another position with a subsidiary of the Company at a comparable salary and benefit level, or where the termination results from a sale of assets or other corporate acquisition;

(ii) the redefinition of an Employee's position to a lower salary rate;

(iii) the termination of an Employee for cause; or

(iv) the non-renewal of employment contracts.

(k) "Release" means that agreement signed by and between an Employee who is eligible to participate in the Plan and the Employee's Participating Employer under which the Employee releases all known and potential claims against the Employee's Participating Employer and all of such employer's parents, subsidiaries, and affiliates.

(l) "Release Date" means, with respect to a Release that includes a revocation period, the date immediately following the expiration date of the revocation period in the Release that has been fully executed by both parties. "Release Date" means, with respect to a Release that does not include a

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revocation period, the date the Release has been fully executed by both parties.

(m) "Severance Period" means the period of time during which a Participant may receive benefits under this Plan. The Severance Period with respect to a Participant begins on the Termination Date. A Participant's Severance Period will be the shorter of (i) 12 months or (ii) a number of months equal to the whole number of Years of Service determined under Section 2(p), unless earlier terminated in accordance with Section 8 of the Plan.

(n) "Termination Date" means the date the Employee severs employment with a Participating Employer.

(o) "Monthly Salary" means -

(i) with respect to an Employee paid on a salary basis, the Employee's current annual salary divided by 12; and

(ii) with respect to an Employee paid on an hourly basis, the Employee's current hourly rate times the number of hours he or she is regularly scheduled to work per week multiplied by 52 and then divided by 12.

(p) "Year of Service" means each period of 12 consecutive months ending on the Employee's employment anniversary date during which the Employee had at least 1,000 Hours of Service. In determining a Participant's Years of Service, the Participant will be credited with a partial Year of Service for his or her final period of employment commencing on his or her most recent employment anniversary date equal to a fraction calculated in accordance with the following formula:

$$\frac{\text{Number of days since most recent employment anniversary date}}{\text{-----}} \\ \text{-----} \\ 365$$

Despite an Employee's Years of Service calculated in accordance with the above, an Employee whose pay grade at his or her Participating Employer fits in the following categories at the time of the Qualifying Termination will be credited with no less than the specified Minimum Years of Service and no more than the specified Maximum Years of Service listed in the following table as applicable to such pay grade:

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PAY GRADE -----	MINIMUM YEARS OF SERVICE -----	MAXIMUM YEARS OF SERVICE -----
81-89 and 231-235	6	18
65-80, 140-145, 185-190, and 218-230	3	18
57-64, 115-135, 175-180, and 210-217	1	18
48-56, 100-110, 170, and 200-209	1	18

Notwithstanding the above, if an Employee has received credit for Years of Service under this Plan or under any previous plan, program, or agreement for the purpose of receiving severance benefits before a Qualifying Termination, such Years of Service will be disregarded when calculating Years of Service for such Qualifying Termination under the Plan; provided, however, that if such severance benefits were terminated prior to completion because the Employee was rehired by any subsidiary of the Company then the Employee will be re-credited with full Years of Service for which severance benefits were not paid in full or in part because of such termination..

3. ELIGIBILITY AND PARTICIPATION. All Employees who incur a Qualifying Termination and sign a Release are eligible to participate in the Plan. An eligible Employee will become a Participant in the Plan as of the Termination Date.

4. SEVERANCE COMPENSATION.

(a) Amount. Subject to Section 8, each Participant will receive during the Severance Period from the applicable Participating Employer aggregate severance compensation equal to:

(i) the Participant's Monthly Salary multiplied by the Participant's Years of Service; plus

(ii) one-twelfth of the Participant's target payout under the Short-Term Incentive Program of the Participating Employer in effect at the time of his or her Termination Date multiplied by the Participant's Years of Service; plus

(iii) an amount to be determined by the Participating Employer at its sole discretion, which amount may be zero.

(b) Timing of Payments. Except as stated in Section 4(c), and subject to Section 8,

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(i) the sum of any amounts determined under Sections 4(a)(i) and 4(a)(ii) of the Plan will be paid in semi-monthly or bi-weekly installments (the timing and amount of each installment as determined by the Participating Employer) during the Severance Period beginning after the later of the Termination Date or the Release Date; and

(ii) any amounts determined under Section 4(a)(iii) of the Plan will be paid in one lump sum within 15 days after the later of the Termination Date or the Release Date, unless otherwise agreed in writing by the Participating Employer and Participant or otherwise required by law.

(c) Death. In the event of the Participant's death prior to receiving all payments due under this Section 4, any unpaid severance compensation will be paid (i) in the same manner as are death benefits under the Participant's basic life insurance coverage provided by the Participant's Participating Employer, and (ii) in accordance with the Participant's beneficiary designation under such coverage. If no such coverage exists, or if no beneficiary designation exists under such coverage as of the date of death of the Participant, the severance compensation will be paid to the Participant's estate in one-lump sum.

5. HEALTH AND WELFARE BENEFITS.

(a) Benefits. In addition to the severance compensation provided pursuant to Section 4 of the Plan, a Participant may continue to participate in the following health and welfare benefits provided by his or her Participating Employer during the Severance Period on the same basis as employees of the Participating Employer:

(i) medical;

(ii) dental;

(iii) vision;

(iv) employee assistance;

(v) medical expense reimbursement and dependent care expense reimbursement benefits provided under a cafeteria plan;

(vi) life insurance (basic and supplemental); and

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(vii) accidental death and dismemberment insurance (basic and supplemental).

For the purposes of any of the above-described benefits provided under a Participating Employer's cafeteria plan, a Qualifying Termination constitutes a "change in status" or "life event."

(b) Payment and Expiration. Payment of the Participant's portion of

contribution or premiums for such selected benefits will be withheld from any severance compensation payments paid to the Participant under this Plan. The Participating Employer's partial subsidization of such coverages will remain in effect until the earlier of:

(i) the expiration or earlier termination of the Employee's Severance Period, after which time the Participant may be eligible to elect to continue coverage of those benefits listed above that are provided under group health plans in accordance with his or her rights under Section 4980B of the Internal Revenue Code; or

(ii) the Participant's attainment of or eligibility to attain health and welfare benefits through another employer after which time the Participant may be eligible to elect to continue coverage of those benefits listed above that are provided under group health plans in accordance with his or her rights under Section 4980B of the Internal Revenue Code.

6. STOCK OPTIONS.

(a) Accelerated Vesting. Any portion of any outstanding incentive stock options and nonqualified stock options that would have vested during the 18-month period following the Termination Date had the Participant remained an employee with the Participating Employer during such 18-month period will vest as of the Termination Date. This Section 6(a) applies only to options (i) granted to the Participant under the Company's 1993 Long-Term Executive Compensation Plan, or any successor plan to its 1993 Long-Term Executive Compensation Plan, not less than 6 months prior to his or her Termination Date and (ii) outstanding at the close of business on such Termination Date. The determination of accelerated vesting under this Section 6(a) shall be made as of the Termination Date and shall be based solely on any time-specific vesting schedule included in the applicable stock option agreement without regard to any accelerated vesting provision not related to the Plan in such agreement.

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(b) Post-Termination Exercise Period. Subject to the expiration dates and other terms of the applicable stock option agreements, the Participant may elect to have the right to exercise any outstanding incentive stock options and nonqualified stock options granted prior to the Termination Date to the Participant under the Company's 1984 Long-Term Executive Compensation Plan, its 1993 Long-Term Executive Compensation Plan, or any successor plan to its 1993 Long-Term Executive Compensation Plan that are vested as of the Termination Date (or, if later, the Release Date), whether due to the operation of Section 6(a), above, or otherwise, at any time during the Severance Period and, except in the event that the Severance Period terminates pursuant to Section 8(a), for a period up to 3 months after the end of the Severance Period (notwithstanding Section 8). Any such election shall apply to all outstanding incentive stock options and nonqualified stock options, will be irrevocable and must be made in writing and delivered to the Plan Administrator on or before the later of the Termination Date or Release Date. If the Participant fails to make an election, the Participant's right to exercise such options will expire 3 months after the Termination Date.

(c) Stock Option Agreement Amendment. The operation of Sections 6(a) and 6(b), above, are subject to the Participant's execution of an amendment to any affected stock option agreements.

7. OUTPLACEMENT SERVICES. In addition to the benefits described above, career transition counseling or outplacement services may be provided upon the Participant's Qualifying Termination. Such outplacement service will be provided at the Participating Employer's sole discretion. Outplacement services are designed to assist employees in their search for new employment and to facilitate a smooth transition between employment with the Participating Employer and employment with another employer. Any outplacement services provided under this Plan will be provided by an outplacement service chosen by the Participating Employer. The Participant is not entitled to any monetary payment in lieu of outplacement services.

8. TERMINATION OF BENEFITS. Any right of a Participant to severance compensation and benefits under the Plan, and all obligations of his or her Participating

Employer to pay any unpaid severance compensation or provide benefits under the Plan will terminate as of the day:

(a) The Participant has engaged in any conduct described in Sections 8(a)(i), 8(a)(ii), 8(a)(iii) or 8(a)(iv), below, as the same may be limited pursuant to Section 8(a)(vi).

(i) During the Severance Period, the Participant's engagement in, ownership of, or control of any interest in (except as a passive investor in

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less than one percent of the outstanding securities of publicly held companies), or acting as an officer, director or employee of, or consultant, advisor or lender to, any firm, corporation, partnership, limited liability company, institution, business, government agency, or entity that engages in any line of business that is competitive with any Line of Business of the Company, provided that this Section 8(a)(i) shall not apply to the Participant if the Participant's primary place of employment by a subsidiary of the Company as of the Termination Date is in either the State of California or the State of North Dakota.

(ii) During the Severance Period, the Participant employs or solicits for employment by any employer other than a subsidiary of the Company any employee of any subsidiary of the Company, or recommends any such employee for employment to any employer (other than a subsidiary of the Company) at which the Participant is or intends to be (A) employed, (B) a member of the Board of Directors, (C) a partner, or (D) providing consulting services.

(iii) During the Severance Period, the Participant directly or indirectly solicits or enters into any arrangement with any person or entity which is, at the time of the solicitation, a significant customer of a subsidiary of the Company for the purpose of engaging in any business transaction of the nature performed by such subsidiary, or contemplated to be performed by such subsidiary, for such customer, provided that this Section 8(a)(iii) shall only apply to customers for whom the Participant personally provided services while employed by a subsidiary of the Company or customers about whom or which the Participant acquired material information while employed by a subsidiary of the Company.

(iv) During the Severance Period, the Participant misappropriates or improperly uses or discloses confidential information of the Company and/or its subsidiaries.

(v) If the Participant engaged in any of the conduct described in Sections 8(a)(i), 8(a)(ii), 8(a)(iii) or 8(a)(iv) during or after Participant's term of employment with a Participating Employer, but prior to the commencement of the Severance Period, and such engagement becomes known to the Participating Employer during the Severance Period, such conduct shall be deemed, for purposes of Sections 8(a)(i), 8(a)(ii), 8(a)(iii) or 8(a)(iv) to have occurred during the Severance Period.

(vi) If the Participant is a party to an employment contract with a Participating Employer that contains a covenant or covenants relating to the Participant's engagement in conduct that is the same as or

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substantially similar to the conduct described in any of Sections 8(a)(i), 8(a)(ii), 8(a)(iii) or 8(a)(iv), and any specific conduct regulated in such covenant or covenants in such employment contract is more limited in scope geographically or otherwise than the corresponding specific conduct described in any of such Sections 8(a)(i), 8(a)(ii), 8(a)(iii) or 8(a)(iv), then the corresponding specific conduct addressed in the applicable Section 8(a)(i),

8(a)(ii), 8(a)(iii) or 8(a)(iv) shall be limited to the same extent as such conduct is limited in the employment contract and the Participating Employer's rights and remedy with respect to such conduct under this Section 8 shall apply only to such conduct as so limited.

(b) The Participant is rehired by his or her Participating Employer or hired by any other subsidiary of the Company in any position other than a position classified as seasonal by such employer.

9. AMENDMENT AND TERMINATION. The Plan Sponsor reserves the right to amend the Plan or to terminate the Plan and all benefits hereunder in their entirety at any time.

10. ADMINISTRATION OF PLAN. The Plan Administrator has the power and discretion to construe the provisions of the Plan and to determine all questions relating to the eligibility of employees of Participating Employers to become Participants in the Plan, and the amount of benefits to which any Participant may be entitled thereunder in accordance with the Plan. Not in limitation, but in amplification of the foregoing and of the authority conferred upon the Plan Administrator, the Plan Sponsor specifically intends that the Plan Administrator have the greatest permissible discretion to construe the terms of the Plan and to determine all questions concerning eligibility, participation and benefits. Any such decision made by the Plan Administrator will be binding on all Employees, Participants, and Beneficiaries, and is intended to be subject to the most deferential standard of judicial review. Such standard of review is not to be affected by any real or alleged conflict of interest on the part of the Plan Administrator. The decision of the Plan Administrator upon all matters within the scope of its authority will be final and binding.

11. CLAIMS PROCEDURES.

(a) FILING A CLAIM FOR BENEFITS. Participants are not required to submit claim forms to initiate payment of benefits under this Plan. To make a claim for benefits, individuals other than Participants who believe they are entitled to receive benefits under this Plan and Participants who believe they have been denied certain benefits under the Plan must write to the Plan Administrator. These individuals and such Participants are hereinafter

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referred to in this Section 11 as "Claimants." Claimants must notify the Plan Administrator if they will be represented by a duly authorized representative with respect to a claim under the Plan.

(b) INITIAL REVIEW OF CLAIMS. The Plan Administrator will evaluate a claim for benefits under the Plan. The Plan Administrator may solicit additional information from the Claimant if necessary to evaluate the claim. If the Plan Administrator denies all or any portion of the claim, the Claimant will receive, within 90 days after the receipt of the written claim, a written notice setting forth:

(i) the specific reason for the denial;

(ii) specific references to pertinent Plan provisions on which the Plan Administrator based its denial;

(iii) a description of any additional material and information needed for the Claimant to perfect his or her claim and an explanation of why the material or information is needed; and

(iv) that any appeal the Claimant wishes to make of the adverse determination must be in writing to the Plan Administrator within 60 days after receipt of the notice of denial of benefits. The notice must advise the Claimant that his or her failure to appeal the action to the Plan Administrator in writing within the 60-day period will render the Plan Administrator's determination final, binding and conclusive. The notice must further advise the Claimant of his or her right to bring a civil action under Section 502(a) of ERISA following the exhaustion of the claims procedures described herein.

(c) APPEAL OF DENIED CLAIM AND FINAL DECISION. If the Claimant should

appeal to the Plan Administrator, the Claimant, or his or her duly authorized representative, must submit, in writing, whatever issues and comments the Claimant or his or her duly authorized representative feels are pertinent. The Claimant, or his or her duly authorized representative, may review and request pertinent Plan documents. The Plan Administrator will reexamine all facts related to the appeal and make a final determination as to whether the denial of benefits is justified under the circumstances. The Plan Administrator will advise the Claimant in writing of its decision within 60 days of the Claimant's written request for review, unless special circumstances (such as a hearing) require an extension of time, in which case the Plan Administrator will make a decision as soon as possible, but no later than 120 days after its receipt of a request for review.

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12. PLAN FINANCING. The benefits to be provided under the Plan will be paid by the applicable Participating Employer, as incurred, out of the general assets of such Participating Employer.

13. GENERAL INFORMATION. The Plan's records are maintained on a calendar year basis. The Plan Number is 509. The Plan is self-administered and is considered a severance plan.

14. GOVERNING LAW. The Plan is established in the State of Missouri. To the extent federal law does not apply, any questions arising under the Plan will be determined under the laws of the State of Missouri.

15. ENFORCEABILITY; SEVERABILITY. If a court of competent jurisdiction determines that any provision of the Plan is not enforceable, then such provision shall be enforceable to the maximum extent possible under applicable law, as determined by such court. The invalidity or unenforceability of any provision of the Plan, as determined by a court of competent jurisdiction, will not affect the validity or enforceability of any other provision of the Plan and all other provisions will remain in full force and effect.

16. WITHHOLDING OF TAXES. The applicable Participating Employer may withhold from any benefit payable under the Plan all federal, state, city or other taxes as may be required pursuant to any law, governmental regulation or ruling. The Participant shall pay upon demand by the Company or the Participating Employer any taxes required to be withheld or collected by the Company or the Participating Employer upon the exercise by the Participant of a nonqualified stock option granted under the Company's 1984 Long-Term Executive Compensation Plan or its 1993 Long-Term Executive Compensation Plan. If the Participant fails to pay any such taxes associated with such exercise upon demand, the Participating Employer shall have the right, but not the obligation, to offset such taxes against any unpaid severance compensation under this Plan.

17. NOT AN EMPLOYMENT AGREEMENT. Nothing in the Plan gives an Employee any rights (or imposes any obligations) to continued employment by his or her Participating Employer or other subsidiary of the Company, nor does it give such Participating Employer any rights (or impose any obligations) for the continued performance of duties by the Employee for the Participating Employer or any other subsidiary of the Company.

18. NO ASSIGNMENT. The Employee's right to receive payments of severance compensation and benefits under the Plan are not assignable or transferable, whether by pledge, creation of a security interest, or otherwise. In the event of any attempted assignment or transfer contrary to this section, the applicable Participating Employer will have no liability to pay any amount so attempted to be

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assigned or transferred.

19. SERVICE OF PROCESS. The Secretary of the Plan Administrator is designated as agent for service of legal process. Service of legal process may be made upon the Secretary of the Plan Administrator at:

HRB Management, Inc.

Attn: Secretary
4400 Main Street
Kansas City, Missouri 64111

20. STATEMENT OF ERISA RIGHTS. As a participant in the Plan, you are entitled to certain rights and protections under ERISA, which provides that all Plan Participants are entitled to:

(a) examine without charge, at the Plan Administrator's office, all documents governing the Plan and a copy of the latest annual report (Form 5500 Series) filed by the Plan with the U.S. Department of Labor and available at the Public Disclosure Room of the Pension and Welfare Benefit Administration;

(b) obtain, upon written request to the Plan Administrator, copies of documents governing the operation of the Plan, copies of the latest annual report (Form 5500 Series) and an updated summary plan description. The Plan Administrator may make a reasonable charge for the copies; and

(c) receive a summary of the Plan's annual financial report if required to be filed for the year. The Plan Administrator is required by law to furnish each participant with a copy of this summary annual report if an annual report is required to be filed for the year.

In addition to creating rights for Plan Participants, ERISA imposes duties upon the people who are responsible for the operation of the Plan. The people who operate your Plan, called "fiduciaries" of the Plan, have a duty to do so prudently and in the interest of you and other Plan Participants and beneficiaries. No one, including your Participating Employer or any other person, may fire you or otherwise discriminate against you in any way to prevent you from obtaining a welfare benefit or exercising your rights under ERISA.

If your claim for a welfare benefit is denied or ignored, in whole or in part, you have the right to know why this was done, to obtain copies of documents relating to the decision without charge, and to appeal any denial, all within certain time schedules.

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Under ERISA, there are steps you can take to enforce the above rights. For instance, if you request a copy of plan documents or the latest annual report from the Plan and do not receive them within 30 days, you may file suit in a Federal court. In such a case, the court may require the Plan Administrator to provide the materials to you and pay you up to \$110 a day until you receive the materials, unless the materials were not sent because of reasons beyond the control of the Plan Administrator. If you have a claim for benefits that is denied or ignored, in whole or in part, you may file suit in a state or Federal court. If it should happen that you are discriminated against for asserting your rights, you may seek assistance from the U. S. Department of Labor, or you may file suit in a Federal court. The court will decide who should pay court costs and legal fees. If you are successful, the court may order the person you have sued to pay these costs and fees. If you lose, the court may order you to pay these costs and fees, for example, if it finds your claim is frivolous.

If you have any questions about the Plan, you should contact the Plan Administrator. If you have questions about this statement or about your rights under ERISA, or if you need assistance in obtaining documents from the Plan Administrator, you should contact the nearest office of the Pension and Welfare Benefits Administration, U.S. Department of Labor, listed in your telephone directory or the Division of Technical Assistance and Inquiries, Pension and Welfare Benefits Administration, U.S. Department of Labor, 200 Constitution Avenue N.W., Washington, D.C. 20210. You may also obtain certain publications about your rights and responsibilities under ERISA by calling the publications hotline of the Pension and Welfare Benefits Administration.

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IN WITNESS WHEREOF, HRB Management, Inc. adopts this Severance Plan effective this 23rd day of April, 2001.

HRB MANAGEMENT, INC.

/s/ Mark A. Ernst

Mark A. Ernst
President and Chief Executive Officer

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SCHEDULE A

PARTICIPATING EMPLOYERS

Block Financial Corporation

Financial Marketing Services, Inc.

Franchise Partner, Inc.

H&R Block Investments, Inc.

H&R Block Services, Inc. and its U.S.-based direct and indirect subsidiaries

HRB Business Services, Inc.

HRB Management, Inc.

HRB Retail Services, Inc.

Olde Financial Corporation and its U.S.-based direct and indirect subsidiaries,
which subsidiaries include H&R Block Financial Advisors, Inc.

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CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report of H&R Block, Inc. (the "Company") on Form 10-Q for the period ending January 31, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Mark A. Ernst, Chief Executive Officer of the Company, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Mark A. Ernst

Mark A. Ernst
Chief Executive Officer
H&R Block, Inc.
March 17, 2003

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report of H&R Block, Inc. (the "Company") on Form 10-Q for the period ending January 31, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Frank J. Cotroneo, Chief Financial Officer of the Company, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Frank J. Cotroneo

Frank J. Cotroneo
Chief Financial Officer
H&R Block, Inc.
March 17, 2003