

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

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FORM 10-K/A  
Amendment Number 2

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934  
For the fiscal year ended April 30, 1997

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission File Number 1-6089

H&R BLOCK, INC.

(Exact name of registrant as specified in its charter)

MISSOURI 44-0607856  
(State or other jurisdiction of (I.R.S. Employer Identification No.)  
incorporation or organization)

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)

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

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

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

Common Stock, without par value  
(Title of Class)

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

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

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

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

## Documents Incorporated by Reference

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

### PART I

#### ITEM 1. BUSINESS.

##### General Development of Business

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

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

During fiscal year 1997, Frank L. Salizzoni became President and Chief Executive Officer of the Company. Mr. Salizzoni replaced Richard H. Brown who, on May 15, 1996, announced his intentions to become chief executive of Cable & Wireless Group plc in London effective July 1, 1996. Mr. Salizzoni was elected President and Chief Executive Officer of the Company on an interim basis effective June 19, 1996, and on a permanent basis on October 11, 1996, when he was also elected Chairman of the Board of CompuServe Corporation.

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

On August 28, 1996, the Company's Board of Directors announced its decision not to present to shareholders at the September 1996 annual meeting of shareholders the proposed pro rata distribution of the remaining CompuServe shares. The decision was based, in part, on CompuServe's first quarter and

projected second quarter losses, market uncertainties related to the online industry, and the planned September introduction of new interfaces for CompuServe's online services: CompuServe Information Service and WOW!. The August 28 announcement reiterated the Board of Directors' belief that a separation of CompuServe is in the best interests of the Company's shareholders and stated that the Board will continue to consider the matter.

On November 21, 1996, CompuServe confirmed its previously forecast second-quarter loss, announced an accelerated amortization of previously capitalized subscriber acquisition costs, and disclosed a shift in its mar-

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keting strategy to reduce costs and to focus on business and professional subscribers to its online service, as well as the profitable segments of the consumer market. As a part of the shift in strategy, CompuServe announced the withdrawal of the family-oriented WOW! online service from the marketplace effective January 31, 1997.

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

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

On September 7, 1997, the Company entered into an Agreement and Plan of Merger ("Merger Agreement") under which a subsidiary of WorldCom, Inc. ("WorldCom") would acquire CompuServe Corporation ("CompuServe"). At the effective time of the merger, each of the outstanding shares of CompuServe common stock (including 74,200,000 shares owned by the Company) are to be converted into the right to receive, and there shall be paid and issued, in exchange for each of the CompuServe shares, .40625 of a share of WorldCom stock, subject to adjustment as provided in the Merger Agreement. The transaction is subject to the satisfaction of certain conditions, including, among others, the expiration or termination of any applicable waiting periods under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and any foreign competition law or similar law, the receipt of other regulatory approvals, the absence of certain adverse material changes, and CompuServe shareholder approval and adoption of the Merger Agreement. The Company has agreed to vote all of its directly and indirectly owned shares of CompuServe common stock in favor of the merger and such action is sufficient to approve the transaction. The transaction will be treated as a sale of assets for tax purposes and it is expected to close as soon as practicable after the satisfaction of all the conditions set forth in the Merger Agreement. In the Company's consolidated statement of earnings for the three years ended April 30, 1997, 1996 and 1995, the consolidated statement of cash flows for the year ended April 30, 1997 and the consolidated balance sheet as of April 30, 1997 included in this Form 10-K/A, Amendment Number 2, CompuServe's results are reflected as discontinued operations.

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

On April 16, 1997, the Company announced that Block Financial Corporation had agreed to purchase all of the stock of Option One Mortgage Corporation ("Option One") from Fleet Financial Group, Inc. ("Fleet"). Option One engages in the origination, purchase, servicing, securitization and sale of one-to-four family residential mortgage loans made primarily to subprime borrowers who do not qualify for loans which conform to FNMA or FHLMC guidelines. It is based in Santa Ana, California, with a network of more than 5,000 mortgage brokers in 46 states. On June 17, 1997, Block Financial Corporation completed the purchase. The purchase price was \$218.1 million in cash, consisting of \$28.1 million in adjusted stockholder's equity and a premium of \$190 million. In addition, Block Financial Corporation made a cash payment of \$456 million to Fleet to eliminate intercompany loans made to Option One to

finance Option One's mortgage loan business. Both payments are subject to post-closing adjustments. The \$456 million payment was recorded as an intercompany loan from Block Financial Corporation to Option One and was repaid by Option One by the end of June 1997 after Option One sold mortgage loans to a third-party in the ordinary course of business.

#### Financial Information About Industry Segments

The information required by Item 101(b) of Regulation S-K relating to financial information about industry segments is contained in the Notes to Consolidated Financial Statements in Item 8 of Part II of this report, and is incorporated herein by reference.

#### Number of Employees

The Company, including its direct and indirect wholly owned subsidiaries, has approximately 1,640 regular full-time employees. The highest number of persons employed by the Company during the fiscal year ended April 30, 1997, including seasonal employees, was approximately 78,900. As of April 30, 1997, CompuServe had approximately 3,050 full-time employees.

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#### Description of Business

##### Diversified Services

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

##### Tax Services

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

In May 1996, the Company announced that its tax operations would be divided structurally into three areas, each targeting specific markets and focusing on new products and services and areas for expansion. H&R Block Tax Services, Inc., focuses on tax business operations in the United States. H&R Block Premium, a division of Tax Services, competes for those clients who typically have more complex income tax returns and features meetings by appointment any time of the year, private offices and more experienced preparers. H&R Block International focuses on strengthening current foreign markets, such as Canada and Australia, and identifying and developing new ones.

References in this section to "Tax Services" include H&R Block Tax Services, Inc., and its subsidiaries involved in the income tax return preparation business, as well as those foreign subsidiaries of the Company now operating as a part of H&R Block International. References in this section to "H&R Block" include both Tax Services and its franchisees.

Taxpayers Served. H&R Block served approximately 18,190,000 taxpayers worldwide during fiscal year 1997, an increase from the 17,415,000 taxpayers

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

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

	Tax Season Ended April 30 (in thousands)				
	1993	1994	1995	1996	1997
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Returns Prepared	12,968	13,036	12,918	13,360	14,302

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

If an H&R Block preparer makes an error in the preparation of a customer's tax return that results in the assessment of any interest or penalties on additional taxes due, while H&R Block does not assume the liability for the additional taxes (except under its "Peace of Mind" Program described under "Additional Products and Services," below), it guarantees payment of the interest and penalties.

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

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

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

preparation fee and electronic filing fee, is received by the RAL customer. The IRS then directly deposits the participating customer's actual Federal income tax refund into a designated account at the bank in order for the loan to be repaid.

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

Tax Services and its franchisees filed approximately 7,279,000 U.S. tax returns electronically in 1997, compared to 6,298,000 in fiscal 1996. Approximately 2,573,000 refund anticipation loans were processed in 1997 by H&R Block, compared to 2,361,000 in fiscal 1996. Approximately 1,871,300 electronic refunds were processed in fiscal 1997 by H&R Block, compared to 1,283,000 in fiscal 1996.

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

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

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

Owned and Franchised Offices. Most H&R Block offices are similar in appearance and usually contain the same type of furniture and equipment, in accordance with the specifications of Tax Services. Free-standing offices are generally located in business and shopping centers of large metropolitan areas and in the central business areas of smaller communities. All offices are open during the tax season. During the balance of the

year, only a limited number of offices are open, but through telephone listings, H&R Block personnel are available to provide service to customers throughout the entire year.

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

license arrangement view the operations thereunder to date as satisfactory.

On April 15, 1997, there were 9,937 H&R Block offices in operation principally in all 50 states, the District of Columbia, Canada, Australia and Europe, compared to 9,678 offices in operation on April 15, 1996. Of the 9,937 offices, 5,215 were owned and operated by Tax Services (compared to 4,738 in fiscal year 1996) and 4,722 were owned and operated by independent franchisees

(compared to 4,940 in fiscal 1996). Of such franchised offices, 3,290 were owned and operated by "satellite" franchisees of Tax Services (described below), 845 were owned and operated by "major" franchisees (described below) and 587 were owned and operated by satellite franchisees of major franchisees. In the United States alone, H&R Block operated 8,554 offices in fiscal year 1997, compared to 8,308 offices in fiscal 1996. Of the 8,554 offices, 4,483 were owned and operated by Tax Services and 4,071 were owned and operated by franchisees.

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

In smaller localities, Tax Services has granted what it terms "satellite" franchises. A satellite franchisee receives from Tax Services signs, designated equipment, specialized forms, local advertising, initial training, and supervisory services and, consequently, pays Tax Services a higher percentage of his or her gross tax return preparation and related service revenues as a franchise royalty than do major franchisees. Many of the satellite franchises of Tax Services are located in cities with populations of 15,000 or less. Some major franchisees also grant satellite franchises in their respective areas. It has always been the policy of Tax Services to grant tax return preparation franchises to qualified persons without an initial franchise fee; however, the policy of Tax Services is to require a deposit to secure compliance with franchise contracts.

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

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

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

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

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

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

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

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

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

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

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

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



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

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

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

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

Competitive Conditions. The tax return preparation and electronic filing businesses are highly competitive. Tax Services considers its primary source of tax return preparation competition to be the individual who prepares his own tax return. In addition, there are a substantial number of tax return preparation firms and accounting firms that offer tax return preparation services. Many tax return preparation firms, and many firms not otherwise in the tax return preparation business are involved in providing electronic filing and refund anticipation loan services to the public. Commercial tax return preparers and electronic filers are highly competitive with regard to price, service and reputation for quality. Tax Services believes that, in terms of the number of offices and tax returns prepared, it is the largest tax return preparation firm in the United States. Tax Services also believes that in terms of the number of offices and tax returns electronically filed in fiscal year 1997, it is the largest provider of electronic filing services in the United States.

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

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

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

The Federal statutes and regulations also regulate an electronic

filer's involvement in refund anticipation loans, money borrowed by a taxpayer that is based on the taxpayer's anticipated income tax refund. Electronic filers

must clearly explain that the refund anticipation loan is in fact a loan, and not a substitute for or a quicker way of receiving an income tax refund. The Federal laws place restrictions on the fees that an electronic filer may charge in connection with refund anticipation loans.

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

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

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

As noted above under "Owned and Franchised Offices," many of the income tax return preparation offices operating in the world under the name "H&R Block" are operated by franchisees. Certain aspects of the franchisor/franchisee relationship have been the subject of regulation by the Federal Trade Commission and by various states. The extent of such regulation varies, but relates primarily to disclosures to be made in connection

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with the grant of franchises and limitations on termination by the franchisor under the franchise agreement. To date, no such regulation has materially affected the Company's business. However, the Company cannot predict what the effect may be of the enactment of new statutes or adoption of new regulations pertaining to franchising.

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

#### Financial Services

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

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

associated with its interests in the RALs. BFC's total RAL revenue in fiscal year 1997 was approximately \$54.5 million, generating approximately \$8.1 million in pretax profits.

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

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

The Company's commitment to the nonconforming mortgage business is exemplified by the purchase of Option One Mortgage Corporation following the end of fiscal year 1997. See the discussion of such acquisition in the last paragraph under "General Development of Business," above. Option One originated more than \$1 billion in mortgage loans in calendar year 1996 and provides the Company with experienced associates in the nonconforming mortgage lending business. It is intended that Option One will assist BFC and Tax Services in handling mortgage applications, loan processing and underwriting of mortgages generated through the Block Mortgage operations.

BFC's credit cards (which include Gold and Classic versions of the CompuServe Visa and WebCard(Service Mark) Visa cards) are currently issued under a co-branding agreement between BFC and Columbus Bank and Trust Company, Columbus, Georgia. Approximately 110,000 CompuServe Visa credit cards were issued by the end of fiscal year 1997, compared to 113,425 accounts at the end of fiscal 1996. The number of WebCard Visa accounts at April 30, 1997, was 57,223, compared to approximately 6,000 accounts at the end of fiscal year 1996. The WebCard was introduced in January 1996. The aggregate portfolio for the credit cards issued by

BFC increased from approximately \$165 million at the end of fiscal year 1996 to more than \$246 million by the end of fiscal year 1997. While the aggregate number of BFC's credit cards increased during fiscal year 1997, the dollar amount of bad debt expense associated with such accounts also increased substantially. The increase in bad debt expense resulted from the increase in the credit card receivables portfolio and a deterioration in credit quality arising from the maturation of the credit card portfolio. BFC is placing greater emphasis on collections management in fiscal year 1998.

BFC developed the CONDUCTOR(R) service, a technology that facilitates the delivery of financial services online through existing commercial online services, the Internet or directly through leased networks. CONDUCTOR features a national online electronic credit card statement that provides the cardholder with access to transaction records and credit availability and the ability to download transactions from the Internet into a personal financial software program. A similar service that allows cardholders access online is offered on CompuServe's information service.

The Company is evaluating the possible sale of its credit card operations, including its receivables portfolio and the CONDUCTOR service.

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

credit secured by the H&R Block franchise and the underlying business.

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

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

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

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

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

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

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

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

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

Applicable state laws generally regulate interest rates and other charges, require certain disclosure and, unless an exemption is available, require licensing of the originators of certain mortgage loans. In addition, most states have other laws, public policies and general principles of equity relating to the protection of consumers, unfair and deceptive practices, and practices that may apply to the origination, servicing and collection of mortgage loans. The mortgage loans purchased or originated by BFC and its subsidiaries are also subject to Federal laws, including, without limitation, the Federal Truth in Lending Act and Regulation Z promulgated thereunder, the Equal Credit Opportunity Act and Regulation B promulgated thereunder, the Fair Credit Reporting Act, the Real Estate Settlement Procedures Act, the Soldiers'

and Sailors' Civil Relief Act of 1940, as amended, and certain other laws and regulations. Certain mortgage loans may be subject to the Riegle Community

Development and Regulatory Improvement Act of 1994, which incorporates the Home Ownership and Equity Protection Act of 1994. These provisions impose additional disclosure and other requirements on creditors with respect to non-purchase money mortgage loans with high interest rates or high up-front fees and charges, can impose specific statutory liabilities upon creditors who fail to comply with their provisions, and may affect the enforceability of the related mortgage loans. Under environmental legislation and case law applicable in certain states, it is possible that liability for environmental hazards in respect of real property may be imposed on a holder of a mortgage note secured by real property.

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

#### ITEM 2. PROPERTIES.

The executive offices of both the Company and Tax Services are located at 4400 Main Street, Kansas City, Missouri, in a multi-level building owned by Tax Services. The building was constructed in 1963, expanded in 1965, 1973 and 1981, and again expanded with the completion of a four-story addition during fiscal year 1996. Most other offices of Tax Services (except those in department stores) are operated in premises held under short-term leases providing fixed monthly rentals, usually with renewal options. BFC's executive offices are located in leased offices at 4435 Main Street, Kansas City, Missouri.

The description of the properties of CompuServe is contained in the annual report on Form 10-K of CompuServe Corporation for the fiscal year ended April 30, 1996, in the section entitled "Business and Properties," and such description is incorporated herein by reference.

#### ITEM 3. LEGAL PROCEEDINGS

In June 1996, a purported shareholder class action complaint was filed against CompuServe and the Company in the Court of Common Pleas, Franklin County, Ohio, in a case entitled Greenfield v. CompuServe Corporation, et al. A second purported shareholder class action suit was filed in July 1996 against CompuServe and the Company in the United States District Court for the Southern District of Ohio in a case entitled Romine v. CompuServe Corporation, et al. A third purported shareholder class action suit was filed in August 1996 against CompuServe, the Company and the lead underwriters in CompuServe's initial public offering of its common stock in April 1996 (the "IPO") in the United States District Court for the District of Minnesota in a case entitled Acker v. CompuServe Corporation, et al. The plaintiffs in the Acker litigation voluntarily dismissed the suit and joined the plaintiffs in the Romine litigation. A fourth purported shareholder class action suit was filed in April 1997 against CompuServe, the Company and the lead underwriters in the IPO in the United States District Court for the Southern District of Ohio in a case entitled Mitelman v. CompuServe Corporation, et al. In Mitelman, plaintiffs have named the lead underwriters as defendants and as representatives of a defendant

class consisting of all underwriters who, pursuant to a single underwriting agreement, participated in the IPO. The complaints in these four purported class actions also name certain current and former officers and directors of CompuServe at the time of the IPO as additional defendants. In a complaint filed in the Court of Common Pleas, Franklin County, Ohio, in March 1997, in a case entitled Florida State Board of Administration

v. CompuServe Corporation, H&R Block, Inc. and H&R Block Group, Inc., the plaintiff seeks recovery of damages from the defendants relating to the IPO, but does not seek class action status. Each of the aforementioned suits alleges similar violations of the Securities Act of 1933 based on assertions of omissions and misstatements of fact in connection with CompuServe's public filings and presentations related to the IPO. The Greenfield suit also alleges similar violations of the Ohio Securities Code and common law of negligent misrepresentation. The Florida State Board of Administration suit also alleges violations of Colorado, Florida and Ohio statutes and common law of negligent misrepresentation. Relief sought in the aforementioned lawsuits is unspecified, but includes pleas for rescission and damages. In August 1996, an action for

discovery was filed solely against CompuServe on behalf of a shareholder in the Court of Common Pleas, Franklin County, Ohio, in a matter entitled Schnipper v. CompuServe Corporation, seeking factual support for a possible additional claim relating to IPO disclosures. The defendants are vigorously defending these suits. The Greenfield, Romine, Acker, and Schnipper lawsuits discussed herein were reported in the Forms 10-Q for the first, second and third quarters of fiscal year 1997.

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

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

ITEM 4A. EXECUTIVE OFFICERS OF THE REGISTRANT

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

Name and age - - - - -	Office(s) - - - - -
Henry W. Bloch (75)	Chairman of the Board since August 1992; Chairman of the Board and Chief Executive Officer from August 1989 through July 1992; Member of the Board of Directors since 1955.
Frank L. Salizzoni (59)	President and Chief Executive Officer since June 1996; Member of the Board of Directors since 1988. See Note 1.
Ozzie Wenich (54)	Senior Vice President, Chief Financial Officer and Treasurer since June 18, 1997; President, H&R Block International, since June 1996; Vice President, Finance and Treasurer from October 1994 through May 1996; Vice President, Corporate Controller and Treasurer from March 1994 until October 1994; Vice President and Corporate Controller from September 1985 until March 1994. See Note 2.
William P. Anderson (48)	President of Block Financial Corporation from May 1992 through June 30, 1997; Senior Vice President and Chief Financial Officer from September 1994 until September 1995; Vice President, Corporate Development and Chief Financial Officer from August 1992 until September 1994; Vice President, Corporate Development from December 1991 until August 1992; See Note 3.
Thomas L. Zimmerman (47)	President, H&R Block Tax Services, Inc., since June 1996; Executive Vice President, Field Operations, H&R Block Tax Services, Inc. from May 1994 through May 1996; Senior Vice President, Central Tax Services, H&R Block Tax Services, Inc., from April 1993 through April 1994; Vice President, Director of Central Tax Operations, H&R Block, Inc., from May 1992 through March 1993.
James H. Ingraham (43)	Vice President, Legal since October 1996; Secretary since June 1990; Assistant Vice President, Corporate Legal and Human Resources from December 1995 until October 1996; Assistant Vice President, Legal from May 1994 until December 1995; Assistant Vice President, Corporate Counsel and Secretary, H&R Block Tax Services, Inc., from April 1993 until May 1994; Associate Corporate Counsel from December 1990 until April 1993.

Name and age - - - - -	Office(s) - - - - -
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Patrick D. Petrie (38) Vice President and Corporate Controller since October 1996; Vice President, Service Operations and Treasurer, H&R Block Tax Services, Inc., from June 1996 until October 1996; Assistant Vice President, Treasurer and Controller, H&R Block Tax Services, Inc., from July 1993 through May 1996; Assistant Vice President and Controller, H&R Block Tax Services, Inc., from April 1993 until July 1993; Assistant Controller from April 1991 until April 1993.

James D. Rose (47) Vice President and Chief Information Officer since June 2, 1997. See Note 4.

Robert A. Weinberger (53) Vice President, Government Relations, since March 1996. See Note 5.

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

Note 2: Mr. Wenich was elected Senior Vice President, Chief Financial Officer and Treasurer of the Company effective June 18, 1997, succeeding George T. Robson in such capacity. Prior to his resignation effective May 31, 1997, Mr. Robson had been Senior Vice President and Chief Financial Officer of the Company since January 1996 and Treasurer since June 1996. Mr. Robson was Senior Vice President of Unisys Corporation from April 1991 until January 1996 and Chief Financial Officer of such corporation from 1990 until January 1996.

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

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

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

## Part II

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

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

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### ITEM 6. SELECTED FINANCIAL DATA

	Year Ended April 30				
	1997	1996	1995	1994	1993
	-----	-----	-----	-----	-----
	In thousands, except per share amounts and number of shareholders				
FOR THE YEAR:					
Total revenues	\$1,097,456	\$ 871,533	\$ 766,323	\$ 806,721	\$ 759,630
Net earnings from continuing operations*	\$ 143,777	\$ 125,089	\$ 97,989	\$ 103,052	\$ 126,556
Net earnings*	\$ 47,755	\$ 177,168	\$ 107,259	\$ 200,528	\$ 180,705
AT YEAR END:					
Total assets	\$1,692,706	\$1,755,891	\$1,097,313	\$1,093,245	\$1,017,601
Cash, cash equivalents and marketable securities	\$ 539,107	\$ 745,693	\$ 444,981	\$ 620,091	\$ 439,526
Stockholders' equity	\$ 999,097	\$1,039,593	\$ 685,865	\$ 707,875	\$ 650,488
Shares outstanding	104,067	103,417	104,863	106,149	106,355
Number of shareholders	33,517	35,634	38,053	35,514	33,457

## MEASUREMENTS:

Per share of common stock:

Net earnings from continuing operations*	\$ 1.36	\$ 1.18	\$ .92	\$ .97	\$ 1.18
Net earnings*	\$ .45	\$ 1.67	\$ 1.01	\$ 1.88	\$ 1.68
Cash dividends declared	\$ 1.04	\$ 1.27 1/4	\$ 1.21 3/4	\$ 1.09	\$ .97
Net tangible book value	\$ 8.88	\$ 9.46	\$ 5.79	\$ 6.03	\$ 4.93
Return on total revenues**	13.1%	14.4%	12.8%	15.9%	16.7%
Return on beginning stockholders' equity	4.6%	25.8%	15.2%	30.8%	29.4%

\* Fiscal 1994 includes a charge to earnings from continuing operations of \$25,072 (\$.24 per share) for purchased research and development in connection with the acquisition of MECA Software, Inc. Fiscal 1995 includes a charge to earnings from discontinued operations of \$83,508 (\$.79 per share) for purchased research and development in connection with the acquisition of SPRY, Inc. See notes to consolidated financial statements.

\*\* Before charge for purchased research and development.

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

## RESULTS OF OPERATIONS

## SIGNIFICANT EVENTS SUBSEQUENT TO FISCAL 1997

On September 7, 1997, the Company entered into an Agreement and Plan of Merger ("Merger Agreement") under which a subsidiary of WorldCom, Inc. ("WorldCom") would acquire CompuServe Corporation ("CompuServe"). At the effective time of the merger, each of the outstanding shares of CompuServe common stock (including 74,200,000 shares owned by the Company) are to be converted into the right to receive, and there shall be paid and issued, in exchange for each of the CompuServe shares, .40625 of a share of WorldCom stock, subject to adjustment as provided in the Merger Agreement. The transaction is subject to the satisfaction of certain conditions, including, among others, the expiration or termination of any applicable waiting periods under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and any foreign competition law or similar law, the receipt of other regulatory approvals, the absence of certain adverse material changes, and CompuServe shareholder approval and adoption of the Merger Agreement. The Company has agreed to vote all of its directly and indirectly owned shares of CompuServe common stock in favor of the merger and such action

is sufficient to approve the transaction. The transaction will be treated as a sale of assets for tax purposes and it is expected to close as soon as practicable after the satisfaction of all the conditions set forth in the Merger Agreement. CompuServe's results have been reflected as discontinued operations. CompuServe contributed (\$.91), \$.49 and \$.88 per share in 1997, 1996 and 1995, respectively, exclusive of a charge of \$83.5 million for purchased research and development in 1995.

On June 17, 1997, the Company completed the purchase of Option One Mortgage Corporation ("Option One"). Option One engages in the origination, purchase, servicing, securitization and sale of nonconforming mortgage loans. Based in Santa Ana, California, Option One has a network of more than 5,000 mortgage brokers in 46 states. The cash purchase price was \$218.1 million. In addition, the Company made a cash pay-

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ment of \$456 million to Option One's parent to eliminate intercompany loans made to Option One to finance its mortgage operations. Both payments are subject to post-closing adjustments. The \$456 million payment was recorded as an intercompany loan and was repaid to the Company by the end of June 1997 after Option One sold the mortgage loans to a third party in the ordinary course of business. The acquisition will be accounted for as a purchase.

In June 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income" ("SFAS 130"), effective for fiscal years beginning after December 15, 1997. SFAS 130 establishes standards for reporting and display of comprehensive income and its components (revenues, expenses, gains and losses) in a full set of general-purpose financial statements. SFAS 130 requires that all items that are required to be recognized under accounting standards as components of comprehensive income be reported in a financial statement that is displayed with the same prominence as other financial statements. SFAS 130 requires that the



Company (a) classify items of other comprehensive income by their nature in a financial statement and (b) display the accumulated balance of other comprehensive income separately from retained earnings and additional paid-in capital in the equity section of a statement of financial position. The Company does not anticipate that the implementation of SFAS 130 will have a material impact on the consolidated financial statements.

In June 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information" ("SFAS 131"), effective for fiscal years beginning after December 15, 1997. SFAS 131 establishes standards for the way that companies report information about operating segments in annual financial statements and requires that those companies report selected information about operating segments in interim financial reports issued to shareholders. It also establishes standards for related disclosures about products and services, geographic areas, and major customers. The Company does not anticipate that the implementation of SFAS 131 will have a material impact on the consolidated financial statements.

#### SIGNIFICANT EVENTS IN FISCAL 1997

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

#### SIGNIFICANT EVENTS IN FISCAL 1996

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

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

In connection with the adoption of Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," the Company recognized an impairment loss of \$8.4 million, representing the amount by which the carrying value of the tax preparation software assets at BFC, including goodwill, exceeded the estimated fair value of those assets. The impairment loss is included in other expenses in the consolidated statements of earnings for the year ended April 30, 1996.

#### NEW ACCOUNTING STANDARDS

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

#### 1997 COMPARED TO 1996

##### CONSOLIDATED RESULTS

Revenues increased 25.9% to \$1.097 billion compared to \$871.5 million in 1996. Net earnings from continuing operations increased 14.9% to \$143.8 million from \$125.1 million in the prior year. Net earnings per share from continuing

operations increased to \$1.36 from \$1.18 last year.

Except for historical information contained herein, the matters addressed in this discussion are forward-looking statements that are subject to risks and uncertainties which could cause actual results to differ materially. Such risks and uncertainties include, but are not limited to, economic, competitive and governmental factors affecting the Company's operations, markets, products, services, prices and various other factors. The Company cannot assume, for example, that revenues of either of its operating segments will increase in fiscal 1998, or that any increase in revenues will favorably impact operating earnings.

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

#### TAX SERVICES

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

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

Management believes that Tax Services revenues will increase at a lower rate than that experienced in fiscal 1997, due to an anticipated smaller increase in pricing and in the number of taxpayers served. Also, the Company acquired a major franchise in June 1996 which favorably impacted Tax Services fiscal 1997 revenues.

#### FINANCIAL SERVICES

Revenues increased 204.1% to \$110.8 million from \$36.4 million in 1996. The increase is largely due to the Company's participation in the RAL program, which contributed revenues of \$54.5 million. Additionally, revenues from mortgage-related operations, which are new this year, amounted to \$8.7 million, including a gain recognized on the Company's first securitization of nonconforming mortgage loans, which approximated \$3 million. Credit card revenues increased 26.0% to \$30.9 million due to the increased number of cards outstanding and higher revolving balances.

Operating earnings were \$7.1 million compared to a loss of \$7.4 million in the prior year. Exclusive of an impairment loss of \$8.4 million recognized on

the tax preparation software business assets in 1996, operating earnings for 1996 were \$1.0 million. This improvement in operating earnings is mainly due to RAL program participation, which contributed pretax earnings of \$8.1 million, and the securitization gain of approximately \$3 million. Operating earnings were negatively impacted by a 60.7% increase in credit card bad debt expense to \$14.6 million. This variance resulted from an increase in the credit card receivables portfolio by 49%, and a deterioration in credit quality arising from the maturation of the credit card portfolio.

Management believes that revenues from Financial Services will increase by at least 50% in fiscal 1998 primarily as a result of the Company's acquisition of Option One.

#### INVESTMENT INCOME, NET

Net investment income increased 28.0% to \$10.9 million from \$8.5 million in 1996. The Company incurred \$2.0 million of interest expense on corporate borrowings in 1996, as compared to \$.2 million in 1997.

#### UNALLOCATED CORPORATE AND ADMINISTRATIVE

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

#### INCOME TAX EXPENSE

The effective tax rate was 36.1% for fiscal 1997, compared to 36.7% for 1996, caused by a decrease in state and local income taxes.

#### 1996 COMPARED TO 1995

#### CONSOLIDATED RESULTS

Revenues increased 13.7% to \$871.5 million compared to \$766.3 million in 1995. Net earnings from continuing operations increased 27.7% to \$125.1 million from \$98.0 million in the prior year. Net earnings per share from continuing operations increased to \$1.18 from \$.92 in 1995.

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

#### TAX SERVICES

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

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

#### FINANCIAL SERVICES

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

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

#### INVESTMENT INCOME, NET

Net investment income declined 64.2% to \$8.5 million from \$23.7 million in 1995, which is attributable to three factors. Less funds were available for investment in 1996 due to strategic investments made in CompuServe. Additionally, investment income in 1995 included gains of \$4.9 million from the sale of securities during the fourth quarter, whereas investment income in 1996 was reduced by interest expense on corporate borrowings of \$2.0 million.

#### UNALLOCATED CORPORATE AND ADMINISTRATIVE

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

#### INCOME TAX EXPENSE

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

#### LIQUIDITY AND CAPITAL RESOURCES

The Company's financial position remains strong, with cash and marketable securities of \$539.1 million at April 30, 1997, compared to \$435.2 million (excluding CompuServe) at the end of 1996. Stockholders' equity at April 30, 1997 and 1996 was \$999.1 million and \$1,039.6 million, respectively.

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

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

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

The Company completed its first securitization of nonconforming mortgage loans in January 1997, recognizing a gain of approximately \$3 million on the transaction, and, in anticipation of future securitizations, continues to purchase such loans utilizing its commercial paper program. As part of its risk management strategy prior to securitization, the Company hedges interest rate risk related to its mortgage portfolio by utilizing treasury rate guarantees. The Company purchases treasury rate guarantees from certain broker-dealer counterparties. The Company's policy is to utilize such treasury rate guarantees only for the purpose of offsetting or reducing the risk of loss associated with a defined or quantified exposure. As a matter of practice, the Company limits the counterparties to major banks and financial institutions.

Management anticipates capital expenditures of approximately \$50 million in 1998 related to its Tax Services and Financial Services groups, exclusive of competitor and franchise acquisitions. The Company will pay CompuServe \$67.1 million in the second quarter of fiscal 1998 for the tax benefits derived by the Company from CompuServe's operating losses in the 1996 calendar year using internally-generated funds. Such payment will be made in accordance with the Tax Sharing Agreement between the Company and CompuServe.

The Company will continue to use short-term financing in the United States to finance various financial activities conducted by BFC, including the funding of loan originations by Option One, and in Canada to finance the Canadian refund discount program. In addition, management anticipates that short-term borrowing will be used in December through February each year to finance seasonal working capital needs and the January shareholder dividend payment. To ultimately finance the acquisition of Option One, the Company intends to issue medium-term notes in the second quarter of fiscal 1998.

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

The Company announced in December 1993 its intention to repurchase from time to time up to 10 million of its shares on the open market, of which 4.8 million had been purchased at April 30, 1997. In July 1996, the Company announced its intention to repurchase up to 10 million additional shares on the open market over a two-year period following the separation of CompuServe. Such authorization is in addition to the 1993 authorization. Following the completion of the CompuServe transaction, the Company plans to continue to purchase its shares on the open market in accordance with these authorizations. However, the repurchase program will depend on the price of the stock, availability of excess cash, the ability to maintain financial flexibility, and other investment opportunities available.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA  
INDEPENDENT AUDITORS' REPORT

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

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

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

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

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

/s/ Deloitte & Touche LLP

Kansas City, Missouri  
June 17, 1997, except for the "Subsequent Events" note to the consolidated financial statements as to which the date is September 7, 1997

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

	Year Ended April 30		
	1997	1996	1995
	-----	-----	-----
REVENUES:			
Service revenues	\$ 978,464	\$ 764,618	\$ 668,293
Royalties	107,508	96,356	90,556
Other income	11,484	10,559	7,474

	1,097,456	871,533	766,323
EXPENSES:			
Employee compensation and benefits	421,652	366,153	333,030
Occupancy and equipment	175,414	141,610	140,487
Marketing and advertising	78,139	57,105	55,330
Supplies, freight and postage	44,625	41,462	42,744
Other	163,438	88,681	65,040
	883,268	695,011	636,631
Operating earnings	214,188	176,522	129,692
OTHER INCOME:			
Investment income, net	10,870	8,490	23,703
Other, net	--	12,445	--
	10,870	20,935	23,703
Earnings from continuing operations before income taxes	225,058	197,457	153,395
Taxes on earnings	81,281	72,368	55,406
Net earnings from continuing operations	143,777	125,089	97,989
Net earnings (loss) from discontinued operations (less applicable taxes (benefit) of (\$53,421), \$35,757 and \$57,331)	(96,022)	52,079	9,270
NET EARNINGS	\$ 47,755	\$ 177,168	\$ 107,259
Net earnings per share from continuing operations	\$ 1.36	\$ 1.18	\$ .92
Net earnings per share	\$ .45	\$ 1.67	\$ 1.01

See notes to consolidated financial statements.

#### CONSOLIDATED BALANCE SHEETS

Amounts in thousands, except per share amounts

	April 30	
	1997	1996
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 457,079	\$ 685,660
Marketable securities	61,755	42,952
Receivables, less allowance for doubtful accounts of \$30,144 and \$7,848	407,441	333,734
Prepaid expenses and other current assets	31,671	59,912
Net assets of discontinued operations	522,144	--
Total current assets	1,480,090	1,122,258
INVESTMENTS AND OTHER ASSETS:		
Investments in marketable securities	20,273	17,081
Excess of cost over fair value of net tangible assets acquired, less accumulated amortization of \$23,089 and \$27,825	74,794	61,141
Deferred subscriber acquisition costs, net of amortization	--	96,636
Other	66,836	59,201

	161,903	234,059
PROPERTY AND EQUIPMENT, at cost less accumulated depreciation and amortization of \$142,894 and \$315,195	65,065	399,574
	-----	-----
	\$1,707,058	\$1,755,891
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Notes payable	\$ 269,619	\$ 72,651
Accounts payable, accrued expenses and deposits	164,872	201,320
Accrued salaries, wages and payroll taxes	105,326	109,870
Accrued taxes on earnings	129,192	94,406
	-----	-----
Total current liabilities	669,009	478,247
DEFERRED INCOME TAXES	--	46,700
OTHER NONCURRENT LIABILITIES	38,952	38,222
COMMITMENTS AND CONTINGENCIES	--	--
MINORITY INTEREST	--	153,129
STOCKHOLDERS' EQUITY:		
Common stock, no par, stated value \$.01 per share: authorized 400,000,000 shares	1,089	1,089
Convertible preferred stock, no par, stated value \$.01 per share: authorized 500,000 shares	4	4
Additional paid-in capital	502,308	504,694
Retained earnings	684,071	747,212
	-----	-----
	1,187,472	1,252,999
Less cost of common stock in treasury	188,375	213,406
	-----	-----
	999,097	1,039,593
	-----	-----
	\$1,707,058	\$1,755,891
	=====	=====

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS  
Amounts in thousands, except per share

	Year Ended April 30		
	1997	1996	1995
	-----	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net earnings	\$ 47,755	\$ 177,168	\$ 107,259
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	36,526	111,240	67,684
Amortization of deferred subscriber acquisition costs	--	22,585	--
Deferred subscriber acquisition costs	--	(119,221)	--
Provision for deferred taxes on earnings	538	52,639	(734)
Gain on sale of subsidiaries	--	(12,445)	(2,796)
Purchased research and development	--	--	83,508
Net gain on sales of marketable securities	(454)	(1,134)	(6,664)
Other noncurrent liabilities	730	4,760	2,845
Changes in assets and liabilities:			
Receivables	(94,452)	(70,621)	(87,995)
Mortgage loans held for sale:			
Originations and purchases	(211,700)	(8,674)	--
Sales and principal repayments	113,259	--	--
Prepaid expenses and other current assets	(15,455)	(25,373)	(1,735)
Net assets of discontinued operations	95,405	--	--
Accounts payable, accrued expenses and deposits	68,514	58,247	(24,994)
Accrued salaries, wages and payroll taxes	10,932	39,127	15,722
Accrued taxes on earnings	36,833	(17,554)	(27,737)
	-----	-----	-----
Net cash provided by operating activities	88,431	210,744	124,363
	-----	-----	-----

CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of marketable securities	(75,595)	(162,544)	(1,904,653)
Maturities of marketable securities	517	304,724	1,837,584
Sales of marketable securities	23,852	155,170	299,702
Purchases of property and equipment, net	(44,277)	(264,491)	(123,337)
Excess of cost over fair value of net tangible assets acquired, net of cash acquired	(17,249)	(18,675)	(47,773)
Proceeds from sale of subsidiaries	--	35,000	5,195
Other, net	(16,038)	(16,577)	(5,856)
	-----	-----	-----
Net cash provided by (used in) investing activities	(128,790)	32,607	60,862
	-----	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:			
Repayments of notes payable	(5,041,386)	(2,252,761)	(1,856,873)
Proceeds from issuance of notes payable	5,238,354	2,275,991	1,906,294
Net proceeds from sale of stock by subsidiary	--	518,819	--
	-----	-----	-----
Dividends paid	(107,988)	(131,263)	(128,838)
Payments to acquire treasury shares	--	(71,897)	(114,900)
Proceeds from stock options exercised	3,439	13,172	57,997
	-----	-----	-----
Net cash provided by (used in) financing activities	92,419	352,061	(136,320)
	-----	-----	-----
Net increase in cash and cash equivalents	52,060	595,412	48,905
Cash and cash equivalents at beginning of the year	405,019	90,248	41,343
	-----	-----	-----
Cash and cash equivalents at end of the year	\$ 457,079	\$ 685,660	\$ 90,248
	=====	=====	=====
SUPPLEMENTAL CASH FLOW DISCLOSURES:			
Income taxes paid (received)	\$ (8,047)	\$ 73,041	\$ 141,062
Interest paid	10,889	5,898	4,064

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
Dollars in thousands, except share data

Summary of Significant Accounting Policies

Nature of operations: H&R Block, Inc. (the "Company") provides a variety of services to the general public, principally in the United States, but also in Canada, Australia and other foreign countries. Approximately 90% of total revenues are generated from tax return preparation, electronic filing of tax returns and other tax-related services. The Company also offers credit card loans, nonconforming mortgages, personal productivity software and purchases participation interests in refund anticipation loans made by a third party lending institution.

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

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

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

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

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

Receivables: Receivables consist primarily of credit card loans and mortgage loans held for sale. Mortgage loans held for sale are carried at the



lower of cost or market value. The allowance for doubtful accounts represents an amount considered by management to be adequate to cover potential credit losses.

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

Deferred subscriber acquisition costs: Effective May 1, 1995, the Company changed its method of accounting for direct response advertising costs to conform with the American Institute of Certified Public Accountants Statement of Position 93-7, "Reporting on Advertising Costs." Under this accounting

method, direct response advertising costs that meet certain criteria are capitalized and amortized on a cost-pool-by-cost-pool basis over the period during which the future benefits are expected to be received. Subscriber acquisition costs consist principally of direct mail costs, including mailing lists, postage, related payroll and outsourcing costs, payments to Original Equipment Manufacturers ("OEMs"), and disk and CD-ROM costs, all of which result in a direct revenue-generating response. The Company makes payments to OEMs in exchange for packaging of the Company's software with their products (e.g. desktop computers and modems). The net effect of the change in accounting increased assets by \$96,636 at April 30, 1996, and increased net earnings of discontinued operations by \$57,305 and net earnings per share by \$.54 for the year ended April 30, 1996. The Company expenses advertising costs not classified as direct response the first time the advertising takes place.

In October 1996, the Company changed its rate of amortization of subscriber acquisition costs from a period of 24 months, with 60% amortized in the first 12 months, to a rate which more closely correlates with recent trends in subscriber retention rates and member net revenues. The new rate of amortization is 50% in the first three months, 30% in the next nine months, and 20% in the subsequent year. In conjunction with this change, the Company accelerated amortization of previously deferred CompuServe Interactive Service ("CSi") subscriber acquisition costs of \$34,500. Additionally, all previously deferred subscriber acquisition costs for WOW! and SPRYNET, totaling \$8,321 and \$2,560, respectively, were written off due to the costs to service these high usage, flat priced services. The WOW! service was withdrawn from the marketplace as of January 31, 1997. All future subscriber acquisition costs for SPRYNET will be expensed as incurred. The total adjustment of \$45,381 to subscriber acquisition costs (\$23,200 after taxes, or \$.22 per share) is included in net loss of discontinued operations in the consolidated statements of earnings for the year ended April 30, 1997.

Excess of cost over fair value of net tangible assets acquired: The excess of cost of purchased subsidiaries, operating offices and franchises over the fair value of net tangible assets acquired is being amortized over an average life of 21 years on a straight-line basis.

At each balance sheet date, a determination is made by management to ascertain whether intangibles have been impaired based on several criteria, including, but not limited to, revenue trends, undiscounted operating cash flows and other operating factors.

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

estimated fair value was determined as the present value of estimated expected future cash flows using a discount rate appropriate for the risks associated with the personal software industry.

Depreciation and amortization: Buildings and equipment are depreciated over the estimated useful lives of the assets using the straight-line method.

Leasehold improvements are amortized over the period of the respective lease using the straight-line method.

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

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

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

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

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

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

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

Stock plans: The Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"), in October 1995. SFAS 123 allows companies to continue under the approach set forth in Accounting Principles Board Opinion No.

25, "Accounting for Stock Issued to Employees" ("APB 25"), for recognizing stock-based compensation expense in the financial statements, but encourages companies to adopt the provisions of SFAS 123 based on the estimated fair value of employee stock options. Companies electing to retain the approach under APB 25 are required to disclose pro forma net earnings and net earnings per share in the notes to the financial statements, as if they had adopted the fair value accounting method under SFAS 123. The Company has elected to retain its current accounting approach under APB 25.

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

Cash and cash equivalents is comprised of the following:

	April 30	
	1997	1996
	-----	-----
Cash and interest-bearing deposits	\$ 58,671	\$272,951
Commercial paper	195,015	105,216
Certificates of deposit	99,747	22,093
U.S. Government obligations	62,586	285,400
Other interest-bearing securities	41,060	--
	-----	-----
	\$457,079	\$685,660
	=====	=====

MARKETABLE SECURITIES

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

	1997				1996			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
	-----	-----	-----	-----	-----	-----	-----	-----
Current:								
Municipal bonds and notes	\$ 6,167	\$ 17	\$ 12	\$ 6,172	\$ 13,182	\$ 440	\$ 79	\$ 13,543
U.S. Government obligations	15,047	8	9	15,046	3,492	3	--	3,495
Other debt investments	40,406	131	--	40,537	25,852	82	20	25,914
	-----	-----	-----	-----	-----	-----	-----	-----
	61,620	156	21	61,755	42,526	525	99	42,952
	-----	-----	-----	-----	-----	-----	-----	-----
Noncurrent:								
Municipal bonds	15,039	325	135	15,229	11,013	310	37	11,286
Preferred stock	647	299	--	946	1,511	316	32	1,795
Common stock	2,625	1,476	3	4,098	3,085	935	20	4,000
	-----	-----	-----	-----	-----	-----	-----	-----
	18,311	2,100	138	20,273	15,609	1,561	89	17,081
	-----	-----	-----	-----	-----	-----	-----	-----
	\$ 79,931	\$ 2,256	\$ 159	\$ 82,028	\$ 58,135	\$ 2,086	\$ 188	\$ 60,033
	=====	=====	=====	=====	=====	=====	=====	=====

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

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

	Amortized Cost	Market Value
	-----	-----
Within one year	\$ 61,620	\$ 61,755
After one year through five years	6,846	7,034
After five years through 10 years	8,193	8,195
	-----	-----
	\$ 76,659	\$ 76,984
	=====	=====

RECEIVABLES

Receivables consist of the following:

	April 30	
	1997	1996
Credit card loans	\$247,889	\$166,008
Mortgage loans held for sale	107,115	8,674
Other	82,581	166,900
	-----	-----
	437,585	341,582
Allowance for doubtful accounts	30,144	7,848
	-----	-----
	\$407,441	\$333,734
	=====	=====

#### PROPERTY AND EQUIPMENT

A summary of property and equipment follows:

	April 30	
	1997	1996
Land	\$ 2,568	\$ 7,084
Buildings	19,812	87,523
Computer and other equipment	154,268	582,815
Leasehold improvements	31,311	37,347
	-----	-----
	207,959	714,769
Less accumulated depreciation and amortization	142,894	315,195
	-----	-----
	\$ 65,065	\$399,574
	=====	=====

Depreciation and amortization expense for 1997, 1996 and 1995 amounted to \$30,727, \$21,006 and \$20,690, respectively.

#### OTHER NONCURRENT LIABILITIES

The Company has deferred compensation plans which permit directors and certain management employees to defer portions of their compensation and accrue earnings on the deferred amounts. The compensation, together with Company matching of deferred amounts, has been accrued, and the only expenses related to these plans are the Company match and the earnings on the deferred amounts, which are not material to the financial statements. Included in other noncurrent liabilities is \$32,990 at the end of 1997 and \$31,146 at the end of 1996 to reflect the liability under these plans. The Company purchased whole-life insurance

contracts on certain related directors and employees to recover distributions made or to be made under the plans and has recorded the cash surrender value of the policies in other assets. If all the assumptions regarding mortality, earnings, policy dividends and other factors are realized, the Company will ultimately realize its full investment plus a factor for the use of its money.

#### STOCKHOLDERS' EQUITY

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

	Common Stock		Convertible Preferred Stock	
	Shares	Amount	Shares	Amount
Balances at May 1, 1994	108,972,699	\$ 1,089	--	--
Net earnings for the year	--	--	--	--
Stock options exercised	--	--	--	--
Unrealized gain on translation	--	--	--	--
Acquisition of treasury shares	--	--	--	--
Stock issued for acquisition	--	--	401,768	\$ 4
Cumulative effect of change in				

accounting for marketable securities, net of taxes	--	--	--	--
Change in net unrealized gain on marketable securities	--	--	--	--
Cash dividends paid-- \$1.21 3/4 per share	--	--	--	--
Balances at April 30, 1995	108,972,699	1,089	401,768	4
Net earnings for the year	--	--	--	--
Stock options exercised	--	--	3,031	--
Restricted stock granted	--	--	--	--
Unrealized loss on translation	--	--	--	--
Acquisition of treasury shares	--	--	--	--
Sale of stock by subsidiary	--	--	--	--
Change in net unrealized gain on marketable securities	--	--	--	--
Cash dividends paid-- \$1.27 1/4 per share	--	--	--	--
Balances at April 30, 1996	108,972,699	1,089	404,799	4
Net earnings for the year	--	--	--	--
Stock options exercised	--	--	2,280	--
Cancellation of restricted stock	--	--	--	--
Unrealized loss on translation	--	--	--	--
Repurchase of Convertible Preferred Stock	--	--	(391)	--
Stock issued for acquisition	--	--	--	--
Change in net unrealized gain on marketable securities	--	--	--	--
Cash dividend paid-- \$1.04 per share	--	--	--	--
Balances at April 30, 1997	108,972,699	\$ 1,089	406,688	\$ 4

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

Change in net unrealized gain on marketable securities	--	157	--	--
Cash dividend paid-- \$1.04 per share	--	(107,988)	--	--
Balances at April 30, 1997	\$ 502,308	\$ 684,071	(4,905,421)	\$ (188,375)

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

On March 8, 1995, the Board of Directors authorized the issuance of a series of 500,000 shares of nonvoting Preferred Stock designated as Convertible Preferred Stock, without par value. On April 4, 1995, 401,768 shares of Convertible Preferred Stock were issued to certain shareholders of SPRY, Inc. ("SPRY") in connection with the Company's acquisition of such corporation. Each share of Convertible Preferred Stock is convertible on or after April 5, 1998 into four shares of Common Stock of the Company, subject to adjustment upon certain events. The holders of the Convertible Preferred Stock are not entitled to receive dividends paid in cash, property or securities and, in the event of any dissolution, liquidation or winding-up of the Company, will share ratably with the holders of Common Stock then outstanding in the assets of the Company after any distribution or payments are made to the holders of Participating Preferred Stock or the holders of any other class or series of stock of the Company with preference over the Common Stock.

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#### STOCK OPTION PLANS

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

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

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

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

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

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

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

The Company applies APB 25 in accounting for its stock option plans, under which no compensation cost has been recognized for stock option awards. Had compensation cost for the stock option plans been determined in accordance with the fair value accounting method prescribed under SFAS 123, the Company's net earnings and net earnings per share on a pro forma basis would have been as follows:

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

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

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

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

SHAREHOLDER RIGHTS PLAN

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

Under the plan, as amended, a Right becomes exercisable when a person or group of persons acquires beneficial ownership of 10% or more of the outstanding shares of the Company's Common Stock without the prior written approval of the Company's Board of Directors (an "Unapproved Stock Acquisition"), and after 10 business days following the commencement of a tender offer that would result in an Unapproved Stock Acquisition. When exercisable, the registered holder of each Right may purchase from the Company one two-hundredths of a share of a new class of the Company's Participating Preferred Stock, without par value, at a price of \$60.00, subject to adjustment. The registered holder of each Right then also has the right (the "Subscription Right") to purchase for the exercise price of the Right, in lieu of shares of Participating Preferred Stock, a number of shares of the Company's Common Stock having a market value equal to twice the exercise price of the Right. Following an Unapproved Stock Acquisition, if the Company is involved in a merger, or 50% or more of the Company's assets or earning power are sold, the registered holder of each Right has the right (the "Merger Right") to purchase for the exercise price of the Right a number of shares of the common stock of the surviving or purchasing company having a market value equal to twice the exercise price of the Right.

After an Unapproved Stock Acquisition, but before any person or group of persons acquires 50% or more of the outstanding shares of the Company's

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

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

OTHER EXPENSES

Included in other expenses are the following:

	Year Ended April 30		
	1997	1996	1995
	-----	-----	-----
Bad debts	\$ 65,865	\$ 20,261	\$ 9,760
Purchased services	14,504	10,866	10,450
Interest	11,641	3,969	4,056
Taxes and licenses	10,475	8,788	7,792
Refund anticipation loan servicing fees	9,838	--	519
Travel and entertainment	9,773	7,370	7,750
Legal and professional	6,105	6,360	1,909
Amortization of goodwill	5,531	11,471	4,319



TAXES ON EARNINGS

The components of earnings from continuing operations before income taxes upon which Federal and foreign income taxes have been provided are as follows:

	Year Ended April 30		
	1997	1996	1995
United States	\$214,469	\$188,749	\$146,521
Foreign	10,589	8,708	6,874
	-----	-----	-----
	\$225,058	\$197,457	\$153,395
	=====	=====	=====

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

	Year Ended April 30		
	1997	1996	1995
Currently payable:			
Federal	\$ 67,992	\$ 59,234	\$ 43,486
State	7,710	7,891	6,343
Foreign	5,041	4,060	3,253
	-----	-----	-----
	80,743	71,185	53,082
	-----	-----	-----
Deferred:			
Federal	542	900	2,457
State	61	118	340
Foreign	(65)	165	(473)
	-----	-----	-----
	538	1,183	2,324
	-----	-----	-----
	\$ 81,281	\$ 72,368	\$ 55,406
	=====	=====	=====

Provision is not made for possible income taxes payable upon distribution of unremitted earnings of foreign subsidiaries. Such unremitted earnings aggregated \$62,270 at December 31, 1996. Management believes the cost to repatriate these earnings would not be material.

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

	Year Ended April 30		
	1997	1996	1995
Statutory rate	35.0%	35.0%	35.0%
Increases (reductions) in income taxes resulting from:			
State income taxes, net of Federal income tax benefit	2.2%	2.6%	2.7%
Foreign taxes, net of Federal income tax benefit	.6%	.5%	.5%
Nontaxable Federal income	(.5%)	(.8%)	(3.2%)
Other	(1.2%)	(.6%)	1.1%
	-----	-----	-----
Effective rate	36.1%	36.7%	36.1%
	=====	=====	=====

A summary of deferred income taxes follows:

	April 30	
	1997	1996
Gross deferred tax assets:		
Accrued expenses	\$ (5,920)	\$ (13,336)
Other	(142)	--
	-----	-----
Current	(6,062)	(13,336)
	-----	-----
Deferred compensation	(10,841)	(12,155)
Depreciation	(2,330)	--
	-----	-----
Noncurrent	(13,171)	(12,155)
	-----	-----
Gross deferred tax liabilities:		
Accrued income	2,072	--
	-----	-----
Depreciation	1,767	20,375
Deferred subscriber acquisition costs	--	36,403
Product development costs	--	1,361
Capitalized research and development	1,042	716
	-----	-----
Noncurrent	2,809	58,855
	-----	-----
Net deferred tax (assets) liabilities	\$ (14,352)	\$ 33,364
	=====	=====

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

#### ACQUISITIONS

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

On April 4, 1995, the Company acquired SPRY for \$41,785 in cash and issued Convertible Preferred Stock valued at \$54,194. In addition, outstanding options for SPRY common stock were converted into options for Convertible Preferred Stock valued at \$5,641. The transaction was accounted for as a

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

During fiscal 1997, 1996 and 1995, the Company made other acquisitions which were accounted for as purchases. Their operations, which are not material, are included in the consolidated statements of earnings. Pro forma results

assuming SPRY had been acquired as of the beginning of the period presented would not be materially different from reported results.

#### SALE OF SUBSIDIARIES

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

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

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

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#### COMMITMENTS AND CONTINGENCIES

Substantially all of the Company's operations are conducted in leased premises. Most of the operating leases are for a one-year period with renewal options of one to three years and provide for fixed monthly rentals. Lease commitments at

April 30, 1997, for fiscal 1998, 1999, 2000, 2001 and 2002 aggregated \$68,714, \$50,251, \$33,848, \$18,082 and \$9,488, respectively, with no significant commitments extending beyond that period of time. The Company's rent expense for the years 1997, 1996 and 1995 aggregated \$78,034, \$65,462 and \$62,127, respectively.

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

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

At April 30, 1997, the Company maintained a \$400,000 line of credit to support various financial activities conducted by Block Financial Corporation and its commercial paper program. This line of credit was increased to \$1,000,000 subsequent to April 30, 1997. The annual commitment fee required to support the availability of this facility is seven basis points per annum on the unused portion of the facility.

During fiscal 1997, CompuServe, certain current and former officers and directors of CompuServe, and the Company were named as defendants in four purported class action lawsuits and one lawsuit based on the same allegations in which the plaintiff does not seek class action status. One purported class action lawsuit was voluntarily dismissed by the plaintiffs and such plaintiffs have joined as plaintiffs in one of the remaining class action lawsuits. One suit names the lead underwriters in the CompuServe initial public offering as additional defendants and as representatives of a defendant class consisting of all underwriters who participated in such offering. Each pending suit alleges similar violations of the Securities Act of 1933 based on assertions of omissions and misstatements of fact in connection with CompuServe's public filings related to its initial public offering. One suit also alleges violations of the Ohio Securities Code and common law of negligent misrepresentation. Another suit also alleges violations of Colorado, Florida and Ohio statutes and common law of negligent misrepresentation. Relief sought is unspecified but

includes pleas for rescission and damages. In addition to the five previously mentioned lawsuits, an action for discovery was filed during fiscal 1997 solely against CompuServe. In such action the plaintiff seeks factual support for a possible additional claim relating to initial public offering disclosures. The defendants are vigorously defending these suits. In the opinion of management, the ultimate resolution of these suits will not have a material adverse impact on the Company's consolidated financial position or future results of operations.

#### FINANCIAL INSTRUMENTS

The Company securitizes and sells fixed and variable rate mortgage loan

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

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

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

#### QUARTERLY FINANCIAL DATA (UNAUDITED)

	Fiscal 1997 Quarter Ended			
	April 30, 1997	Jan. 31, 1997	Oct. 31, 1996	July 31, 1996
Revenues	\$ 880,597	\$ 155,137	\$ 41,107	\$ 20,615
Continuing operations:				
Earnings (loss) before				
income taxes (benefits)	\$ 337,847	\$ (22,418)	\$ (44,484)	\$ (45,887)
Taxes (benefits) on earnings	124,028	(8,496)	(16,860)	(17,391)
Net earnings (loss)	213,819	(13,922)	(27,624)	(28,496)
Net earnings (loss) from				
discontinued operations	(14,384)	(11,404)	(46,504)	(23,730)
Net earnings (loss)	\$ 199,435	\$ (25,326)	\$ (74,128)	\$ (52,226)
Net earnings (loss) per share				
from continuing operations	\$ 2.03	\$ (.13)	\$ (.27)	\$ (.27)
Net earnings (loss) per share	\$ 1.90	\$ (.24)	\$ (.71)	\$ (.50)

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

	1996	1996	1995	1995
Revenues	\$ 709,225	\$ 110,812	\$ 34,673	\$ 16,823
Continuing operations:				
Earnings (loss) before				
income taxes (benefits)	\$ 297,913	\$ (26,129)	\$ (37,205)	\$ (37,122)
Taxes (benefits) on earnings	112,943	(10,432)	(14,835)	(15,308)
Net earnings (loss)	184,970	(15,697)	(22,370)	(21,814)
Net earnings (loss) from				
discontinued operations	741	10,226	14,072	27,040
Net earnings (loss)	\$ 185,711	\$ (5,471)	\$ (8,298)	\$ 5,226
Net earnings (loss) per share				
from continuing operations	\$ 1.74	\$ (.15)	\$ (.21)	\$ (.20)
Net earnings (loss) per share	\$ 1.75	\$ (.05)	\$ (.08)	\$ (.05)

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

Included in discontinued operations in the second quarter of fiscal 1997 are pretax charges of \$34,500 related to accelerated amortization of previously deferred CSi subscriber acquisition costs; \$10,881 due to the write-off of all previously deferred subscriber acquisition costs for WOW! and SPRYNET; and \$7,850 related to the withdrawal of the WOW! online service from the marketplace.

Included in discontinued operations in the fourth quarter of fiscal 1997 is a pretax charge of \$9,191 related to further consolidation of Columbus-area office facilities and the sale or write-down of certain equity investments in providers of content and technologies.

#### SEGMENT INFORMATION

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

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

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

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

the years ended April 30, 1997, 1996 and 1995 is as follows:

	1997	1996	1995
	-----		
REVENUES:			
Tax Services	\$ 993,924	\$ 831,455	\$ 729,718
Financial Services	110,830	36,442	35,910
Unallocated corporate	1,012	3,636	695
Intersegment sales	(8,310)	--	--
	-----		
Total revenues	\$ 1,097,456	\$ 871,533	\$ 766,323
	=====		
OPERATING EARNINGS:			
Tax Services	\$ 217,124	\$ 194,771	\$ 147,740
Financial Services	7,053	(7,368)	(5,788)
Unallocated corporate	(9,989)	(10,881)	(12,260)
	-----		
Total operating earnings	214,188	176,522	129,692
Investment income, net	10,870	8,490	23,703
Other, net	--	12,445	--
	-----		
Earnings from continuing operations before income taxes	\$ 225,058	\$ 197,457	\$ 153,395
	=====		
DEPRECIATION AND AMORTIZATION:			
Tax Services	\$ 35,300	\$ 23,499	\$ 21,991
Financial Services	1,093	8,929	2,992
Corporate	133	129	62
	-----		
Total depreciation and amortization	\$ 36,526	\$ 32,557	\$ 25,045
	=====		
IDENTIFIABLE ASSETS:			
Tax Services	\$ 217,720	\$ 141,031	\$ 117,560
Financial Services	415,900	208,489	186,859
Corporate	551,294	455,700	482,501
	-----		
Total assets	\$ 1,184,914	\$ 805,220	\$ 786,920
	=====		
CAPITAL EXPENDITURES:			
Tax Services	\$ 43,159	\$ 36,724	\$ 26,033
Financial Services	1,450	938	2,135
Corporate	144	354	45
	-----		
Total capital expenditure	\$ 44,753	\$ 38,016	\$ 28,213
	=====		

#### SUMMARIZED FINANCIAL INFORMATION

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

	April 30	
	1997	1996
	-----	
Condensed balance sheets:		
Cash and cash equivalents	\$ 3,425	\$ 3,871
Finance receivables, net	380,206	191,210
Other assets	34,657	10,490
	-----	
Total assets	\$ 418,288	\$ 205,571
	=====	
Commercial paper	\$ 269,619	\$ 72,651
Other liabilities	26,867	15,451

Stockholder's equity	121,802	117,469
	-----	-----
Total liabilities and stockholder's equity	\$ 418,288	\$ 205,571
	=====	=====

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	Year Ended April 30		
	1997	1996	1995
	-----	-----	-----
Condensed statements of operations:			
Revenues	\$110,777	\$ 36,854	\$ 35,909
Earnings (loss) from operations	7,053	(7,368)	(5,788)
Earnings (loss) before income taxes (benefit)	7,053	5,077	(5,788)
Net earnings (loss)	4,337	(255)	(4,284)

#### SUBSEQUENT EVENTS

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

periods under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and any foreign competition law or similar law, the receipt of other regulatory approvals, the absence of certain adverse material changes, and CompuServe shareholder approval and adoption of the Merger Agreement. The Company has agreed to vote all of its directly or indirectly owned shares of CompuServe common stock in favor of the merger and such action is sufficient to approve the transaction. The transaction will be treated as a sale of assets for tax purposes and it is expected to close as soon as practicable after the satisfaction of all the conditions set forth in the Merger Agreement.

The consolidated statements of earnings for the three years ended April 30, 1997, 1996 and 1995, the consolidated statement of cash flows for the year ended April 30, 1997, and the consolidated balance sheet as of April 30, 1997 have been reclassified to reflect CompuServe's operations as discontinued in accordance with Accounting Principles Board Opinion No. 30.

Summarized financial information for CompuServe follows:

	April 30	
	1997	1996
	-----	-----
Condensed balance sheets:		
Current assets	\$ 382,816	\$ 485,890
Noncurrent assets	419,720	479,938
	-----	-----
	\$ 802,536	\$ 965,828
	=====	=====
Current liabilities	\$ 114,989	\$ 138,399
Noncurrent liabilities	36,111	56,763
Stockholders' equity	651,436	770,666
	-----	-----
	\$ 802,536	\$ 965,828
	=====	=====

	Year Ended April 30		
	1997	1996	1995
	-----	-----	-----

Condensed statements of operations:

Revenues	\$ 841,887	\$ 793,165	\$ 582,793
Operating earnings (loss)	(196,344)	87,836	68,279
Net earnings (loss)	(119,834)	49,094	8,798

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

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

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

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

ITEM 11. EXECUTIVE COMPENSATION.

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

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

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

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

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

PART IV

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

(a) 1. Financial Statements

The following consolidated financial statements, related notes and report of H&R Block, Inc., and subsidiaries appear in Part II, Item 8, Financial Statements and Supplementary Data, included in this Amendment Number 2 to the Annual Report on Form 10-K:

Consolidated Statements of Earnings  
Consolidated Balance Sheets  
Consolidated Statements of Cash Flows  
Notes to Consolidated Financial Statements  
Quarterly Financial Data  
Independent Auditors' Report

2. Financial Statement Schedules

Independent Auditors' Report



Schedule VIII - Valuation and Qualifying Accounts

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

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3. Exhibits
- 3(a) Restated Articles of Incorporation of H&R Block, Inc., as amended, filed as Exhibit 3(b) to the Company's quarterly report on Form 10-Q for the quarter ended October 31, 1996, are incorporated herein by reference.
- 3(b) Bylaws of H&R Block, Inc., as amended, filed as Exhibit 3(b) to the Company's annual report on Form 10-K for the fiscal year ended April 30, 1995, are incorporated herein by reference.
- 4(a) Conformed copy of Rights Agreement dated as of July 14, 1988 between H&R Block, Inc., and Centerre Trust Company of St. Louis, filed on August 9, 1993 as Exhibit 4(c) to the Company's Registration Statement on Form S-8 (File No. 33-67170), is incorporated herein by reference.
- 4(b) Copy of Amendment to Rights Agreement dated as of May 9, 1990 between H&R Block, Inc. and Boatmen's Trust Company, filed as Exhibit 4(b) to the Company's annual report on Form 10-K for the fiscal year ended April 30, 1995, is incorporated by reference.
- 4(c) Copy of Second Amendment to Rights Agreement dated September 11, 1991 between H&R Block, Inc. and Boatmen's Trust Company, filed as Exhibit 4(c) to the Company's annual report on Form 10-K for the fiscal year ended April 30, 1995, is incorporated by reference.
- 4(d) Copy of Third Amendment to Rights Agreement dated May 10, 1995 between H&R Block, Inc. and Boatmen's Trust Company, filed as Exhibit 4(d) to the Company's annual report on Form 10-K for the fiscal year ended April 30, 1995, is incorporated by reference.
- 4(e) Form of Certificate of Designation, Preferences and Rights of Participating Preferred Stock of H&R Block, Inc., filed as Exhibit 4(e) to the Company's annual report on Form 10-K for the fiscal year ended April 30, 1995, is incorporated by reference.
- 4(f) Form of Certificate of Designation, Preferences and Rights of Delayed Convertible Preferred Stock of H&R Block, Inc., filed as Exhibit 4(f) to the Company's annual report on Form 10-K for the fiscal year ended April 30, 1995, is incorporated by reference.
- 10(a) Stock Purchase Agreement dated April 14, 1997, among Fleet Financial Group, Inc., Fleet Holding Corp., H&R Block, Inc. and Block Financial Corporation, filed on July 2, 1997 as Exhibit 2.1 to the Company's current report on Form 8-K, is incorporated herein by reference
- 10(b) The Company's 1993 Long-Term Executive Compensation Plan, as amended, filed as Exhibit 10(a) to the Company's quarterly report on Form 10-Q for the quarter ended January 31, 1996, is incorporated herein by reference.
- 10(c) The H&R Block Long-Term Performance Program, as amended, filed as Exhibit 10(c) to the Company's annual report on Form 10-K for the fiscal year ended April 30, 1994, is incorporated

herein by reference.

- 10(d) The H&R Block Deferred Compensation Plan for Directors, as amended, filed as Exhibit 10 to the Company's quarterly report on Form 10-Q for the quarter ended July 31, 1994, is incorporated herein by reference.
- 10(e) Amendment No. 2 to H&R Block Deferred Compensation Plan for Directors, filed as Exhibit 10(c) to the Company's quarterly report on Form 10-Q for the quarter ended January 31, 1997, is incorporated herein by reference.
- 10(f) The H&R Block Deferred Compensation Plan for Executives, as amended (Amendments 1 through 5), filed as Exhibit 10(e) to the Company's annual report on Form 10-K for the fiscal year ended April 30, 1994, is incorporated herein by reference.
- 10(g) Amendment No. 6 to H&R Block Deferred Compensation Plan for Executives, filed as Exhibit 10(b) to the Company's quarterly report on Form 10-Q for the quarter ended July 31, 1995, is incorporated herein by reference.
- 10(h) Amendment No. 7 to H&R Block Deferred Compensation Plan for Executives, filed as Exhibit 10(a) to the Company's quarterly report on Form 10-Q for the quarter ended January 31, 1997, is incorporated herein by reference.

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- 10(i) The H&R Block Supplemental Deferred Compensation Plan for Executives, filed as Exhibit 10(f) to the Company's annual report on Form 10-K for the fiscal year ended April 30, 1994, is incorporated herein by reference.
- 10(j) Amendment No. 1 to H&R Block Supplemental Deferred Compensation Plan for Executives, filed as Exhibit 10(a) to the Company's quarterly report on Form 10-Q for the quarter ended October 31, 1994, is incorporated herein by reference.
- 10(k) Amendment No. 2 to H&R Block Supplemental Deferred Compensation Plan for Executives, filed as Exhibit 10(c) to the Company's quarterly report on Form 10-Q for the quarter ended July 31, 1995, is incorporated herein by reference.
- 10(l) Amendment No. 3 to H&R Block Supplemental Deferred Compensation Plan for Executives, filed as Exhibit 10(b) to the Company's quarterly report on Form 10-Q for the quarter ended January 31, 1997, is incorporated herein by reference.
- 10(m) The H&R Block Short-Term Incentive Plan, filed as Exhibit 10(a) to the Company's quarterly report on Form 10-Q for the quarter ended October 31, 1996, is incorporated herein by reference.
- 10(n) The Amended and Restated H&R Block, Inc. Retirement Plan for Non-Employee Directors, filed as Exhibit 10(h) to the Company's annual report on Form 10-K for the fiscal year ended April 30, 1995, is incorporated herein by reference.
- 10(o) The Company's 1989 Stock Option Plan for Outside Directors, as amended, filed as Exhibit 10(o) to the Company's annual report on Form 10-K for the fiscal year ended April 30, 1997, is incorporated herein by reference.
- 10(p) Employment Agreement dated October 11, 1996, between the Company and Frank L. Salizzoni, filed as Exhibit 10(b) to the Company's quarterly report on Form 10-Q for the quarter ended October 31, 1996, is incorporated herein by reference.
- 11 Statement re Computation of Per Share Earnings.
- 13 That portion of the annual report to security holders for the

fiscal year ended April 30, 1997 which is expressly incorporated by reference in this Amendment Number 2 to the Annual Report on Form 10-K for such fiscal year. Portions of

such annual report to security holders not expressly incorporated by reference in this Amendment Number 2 to the Annual Report on Form 10-K are not deemed "filed" with the Commission.

21 Subsidiaries of the Company.

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

27 Financial Data Schedule.

(b) Reports on Form 8-K.

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

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#### SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this Amendment Number 2 to Annual Report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized.

H&R BLOCK, INC.

September 19, 1997

By /s/ Frank L. Salizzoni

-----  
Frank L. Salizzoni, President  
and Chief Executive Officer

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

Signature Title

-----

/s/ Frank L. Salizzoni President, Chief  
----- Executive Officer and  
Frank L. Salizzoni Director (principal executive officer)

/s/ G. Kenneth Baum Director  
-----  
G. Kenneth Baum

/s/ Henry W. Bloch Director  
-----  
Henry W. Bloch

/s/ Robert E. Davis Director  
-----  
Robert E. Davis

/s/ Donna R. Ecton Director  
-----  
Donna R. Ecton

/s/ Henry F. Frigon            Director  
-----  
Henry F. Frigon

-----                            Director  
-----  
Roger W. Hale

/s/ Marvin L. Rich            Director  
-----  
Marvin L. Rich

/s/ Morton I. Sosland        Director  
-----  
Morton I. Sosland

(Signed as to each on September 19, 1997)

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

(Signed as to each on September 19, 1997)

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#### INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in Post-Effective Amendment No. 4 to Registration Statement No. 33-185 of H&R Block, Inc. and subsidiaries (relating to shares of Common Stock issued under the 1984 Long-Term Executive Compensation Plan) on Form S-8, Registration Statement No. 33-33889 of H&R Block, Inc. and subsidiaries (relating to shares of Common Stock issuable under the 1989 Stock Option Plan for Outside Directors) on Form S-8, Registration Statement No. 33-54985 of H&R Block, Inc. and subsidiaries (relating to shares of Common Stock issued under the 1993 Long-Term Executive Compensation Plan) on Form S-8, Registration Statement No. 33-64147 of H&R Block, Inc. and subsidiaries (relating to shares of Delayed Convertible Preferred Stock issuable under the SPRY, Inc. 1995 Stock Option Plan) on Form S-8, and Registration Statement No. 333-33039 of H&R Block, Inc. and subsidiaries (relating to shares of Common Stock issuable under the Third Stock Option Plan for Seasonal Employees) on Form S-8 of our reports dated June 17, 1997, except for the "Subsequent Events" note to the consolidated financial statements as to which the date is September 7, 1997, appearing in and incorporated by reference in this Amendment Number 2 to Annual Report on Form 10-K of H&R Block, Inc. and subsidiaries for the year ended April 30, 1997.

/s/ Deloitte & Touche LLP

Kansas City, Missouri  
September 24, 1997

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INDEPENDENT AUDITORS' REPORT

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

We have audited the consolidated financial statements of H&R Block, Inc. and subsidiaries as of April 30, 1997 and 1996 and for each of the three years in the period ended April 30, 1997, and have issued our report thereon dated June 17, 1997, except for the "Subsequent Events" note to the consolidated financial statements as to which the date is September 7, 1997; such consolidated financial statements and report are included in Item 8 of this report. Our audits also included the financial statement schedule of H&R Block, Inc. and subsidiaries, listed in Item 14(a)(2). This financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion based on our audits. In our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ Deloitte & Touche LLP  
Kansas City, Missouri

June 17, 1997, except for the "Subsequent Events" note to the consolidated financial statements as to which the date is September 7, 1997

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H&R BLOCK, INC.  
AND SUBSIDIARIES

SCHEDULE VIII - VALUATION AND QUALIFYING ACCOUNTS

YEARS ENDED APRIL 30, 1997, 1996 AND 1995

Description	Balance Beginning of Period	Additions		Deductions	Balance at End of Period
		Charged to Costs and Expenses	Charged to Other		
Allowance for Doubtful Accounts-deducted from accounts receivable in the balance sheet					
1997	\$ 4,419,000	\$65,865,000	\$ --	\$40,140,000	\$30,144,000
1996	\$ 7,274,000	\$31,766,000	\$ --	\$31,192,000	\$ 7,848,000
1995	\$ 12,744,000	\$13,619,000	\$ --	\$19,089,000	\$ 7,274,000

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## CALCULATION OF PRIMARY EARNINGS PER SHARE

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

## CALCULATION OF FULLY DILUTED EARNINGS PER SHARE

	Year Ended April 30,		
	1997	1996	1995
Net earnings	\$ 47,755,000	\$177,168,000	\$107,259,000
Weighted average number of shares outstanding - fully diluted: Shares used in calculating primary earnings per share	105,840,000	106,059,000	105,871,000
Additional effect of stock options after application of treasury stock method	32,000	--	155,000
Weighted average number of shares outstanding	105,872,000	106,059,000	106,026,000
Net earnings per share: Fully diluted	\$ .45	\$ 1.67	\$ 1.01

## COMMON STOCK DATA

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

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

## SUBSIDIARIES OF H&amp;R BLOCK, INC.

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

Name -----	Jurisdiction in which organized -----
H&R Block Group, Inc. ....	Delaware (1)
Block Investment Corporation .....	Delaware (1)
HRB Management, Inc. ....	Missouri (2)
H&R Block Tax Services, Inc. ....	Missouri (2)
H&R Block Eastern Tax Services, Inc. ....	Missouri (3)
Bay Colony, Ltd. ....	Virginia (4)
H&R Block of Dallas, Inc. ....	Texas (3)
HRB Partners, Inc. ....	Delaware (5)
H&R Block and Associates, L.P. ....	Delaware (6)
HRB Royalty, Inc. ....	Delaware (3)
BWA Advertising, Inc. ....	Missouri (3)
H&R Block Canada, Inc. ....	Canada (3)
H&R Block (Nova Scotia), Incorporated .....	Nova Scotia (7)
Cashplan Systems, Inc. ....	British Columbia (7)
Two Dog Ranch Ltd .....	British Columbia (7)
H&R Block (Guam), Inc. ....	Guam (3)
H&R Block Limited .....	New South Wales (8)
H&R Block The Income Tax People Limited .....	New Zealand (3)
Block Financial Corporation .....	Delaware (2)
Franchise Partner, Inc. ....	Nevada (9)
WebBank Corporation .....	Utah (9)
MECA Sub - LFOD, Ltd. ....	New Hampshire (9)
Companion Mortgage Corporation .....	Delaware (9)
Block Mortgage Finance, Inc. ....	Delaware (10)
Companion Servicing Company L.L.C. ....	Georgia (11)
Option One Mortgage Corporation .....	California (9)
Option One Mortgage Acceptance Corporation .....	Delaware (12)
Premier Trust Deed Services, Inc. ....	California (12)
H&R Block Mortgage Company, L.L.C. ....	Virginia (13)
CompuServe Corporation .....	Delaware (14)
CompuServe Incorporated .....	Ohio (15)
CompuPlex Incorporated .....	Ohio (16)
CompuServe Ventures Incorporated .....	Ohio (16)
CompuServe Works of Wonder, Inc. ....	Ohio (16)
CompuServe Systems Integration Group Southwest, Inc..	Texas (16)
CompuServe Canada Limited .....	Canada (16)
CompuServe Consulting Services (UK) Limited .....	United Kingdom (16)
CompuServe Information Services (UK) Limited .....	United Kingdom (16)
CompuServe Information Services GMBH .....	Germany (16)
CompuServe Information Services AG .....	Switzerland (16)
CompuServe Information Systems S.A.R.L. ....	France (16)
CompuServe A.B. ....	Sweden (16)
CompuServe Information Services, B.V .....	The Netherlands (16)
CompuServe International Pty, Ltd. ....	Australia (16)
CNS Information (S) Pte Ltd. ....	Singapore (16)
Spry, Inc. ....	Washington (16)
Network Publishing Inc. ....	Utah (17)
Access Technology, Inc. ....	Massachusetts (18)
Companion Insurance, Ltd. ....	Bermuda (18)
H&R Block U.K. Ltd .....	United Kingdom (18)
HRB Investment, Inc. ....	Delaware (18)
PM Industries, Inc. ....	Kansas (18)



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

<ARTICLE> 5

<LEGEND>

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

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