

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED OCTOBER 31, 1996
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
FOR THE TRANSITION PERIOD FROM _____ TO _____

COMMISSION FILE NUMBER 1-6089

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

MISSOURI
(STATE OR OTHER JURISDICTION OF
INCORPORATION OR ORGANIZATION)

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

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

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

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

Yes No

The number of shares outstanding of the registrant's Common Stock, without par
value, at December 6, 1996 was 104,022,952 shares.

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H&R BLOCK, INC.
CONSOLIDATED BALANCE SHEETS
Amounts in Thousands, Except Share Amounts

ASSETS	OCTOBER 31, 1996 ----- (Unaudited)	APRIL 30, 1996 ----- (Audited)
CURRENT ASSETS		
Cash (including certificates of deposit of \$10,492 and \$22,093)	\$ 211,514	\$ 339,055
Marketable securities	89,523	389,557
Receivables, less allowance for doubtful accounts of \$11,462 and \$7,848	416,970	333,734
Prepays and other current assets	74,165	59,912
	-----	-----
TOTAL CURRENT ASSETS	792,172	1,122,258
INVESTMENTS AND OTHER ASSETS		
Investments in marketable securities	32,625	17,081
Excess of cost over fair value of net tangible assets acquired, net of amortization	82,502	61,141
Deferred subscriber acquisition costs, net of amortization	50,213	96,636
Other	65,948	59,201
	-----	-----
	231,288	234,059
PROPERTY AND EQUIPMENT, at cost less accumulated depreciation and amortization	432,328	399,574
	-----	-----
	\$ 1,455,788	\$ 1,755,891
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Notes payable	\$ 183,360	\$ 72,651
Accounts payable, accrued expenses and deposits	172,258	201,320
Accrued salaries, wages and payroll taxes	16,280	109,870
Accrued taxes on income	3,892	94,406
	-----	-----
TOTAL CURRENT LIABILITIES	375,790	478,247
DEFERRED INCOME TAXES	33,205	46,700
OTHER NONCURRENT LIABILITIES	40,761	38,222
MINORITY INTEREST	135,713	153,129
STOCKHOLDERS' EQUITY		
Common stock, no par, stated value \$.01 per share	1,089	1,089
Convertible preferred stock, no par, stated value \$.01 per share	4	4
Additional paid-in capital	502,675	504,694
Retained earnings	556,420	747,212
	-----	-----
	1,060,188	1,252,999
Less cost of 4,944,321 and 5,556,097 shares of common stock		

in treasury	189,869	213,406
	-----	-----
	870,319	1,039,593
	-----	-----
	\$ 1,455,788	\$ 1,755,891
	=====	=====

See Notes to Consolidated Financial Statements

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H&R BLOCK, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
Unaudited, Amounts in Thousands, Except Per Share Amounts

	THREE MONTHS ENDED	

	OCTOBER 31,	

	1996	1995
	----	----
REVENUES		
Service revenues	\$ 247,817	\$ 216,463
Franchise royalties	4,390	3,582
Other income	1,243	1,001
	-----	-----
	253,450	221,046
	-----	-----
OPERATING EXPENSES		
Employee compensation and benefits	72,405	61,523
Occupancy and equipment	133,553	89,727
Marketing and advertising	88,618	16,572
Supplies, freight and postage	11,352	17,931
Other	88,785	51,630
	-----	-----
	394,713	237,383
	-----	-----
Operating loss	(141,263)	(16,337)
OTHER INCOME		
Investment income	4,664	2,867
	-----	-----
Loss before income taxes and minority interest	(136,599)	(13,470)
Income tax benefit	(50,940)	(5,172)
	-----	-----
Net loss before minority interest	(85,659)	(8,298)
Minority interest in consolidated subsidiary	(11,531)	-
	-----	-----
Net earnings (loss)	\$ (74,128)	\$ (8,298)
	=====	=====
Weighted average number of common shares outstanding	104,017	103,950
	=====	=====
Net loss per share	\$ (.71)	\$ (.08)
	=====	=====
Dividends per share	\$.32	\$.32
	=====	=====

See Notes to Consolidated Financial Statements

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H&R BLOCK, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
Unaudited, Amounts in Thousands, Except Per Share Amounts

	SIX MONTHS ENDED	
	OCTOBER 31,	
	1996	1995
REVENUES		
Service revenues	\$ 471,530	\$ 415,810
Franchise royalties	6,207	4,977
Other income	2,971	1,621
	480,708	422,408
OPERATING EXPENSES		
Employee compensation and benefits	140,728	116,427
Occupancy and equipment	258,283	171,238
Marketing and advertising	120,219	20,149
Supplies, freight and postage	21,559	33,142
Other	182,213	106,058
	723,002	447,014
Operating loss	(242,294)	(24,606)
OTHER INCOME		
Investment income	11,738	7,174
Other	-	12,445
	11,738	19,619
Loss before income taxes and minority interest	(230,556)	(4,987)
Income tax benefit	(86,786)	(1,915)
Net loss before minority interest	(143,770)	(3,072)
Minority interest in consolidated subsidiary	(17,416)	-
Net loss	\$ (126,354)	\$ (3,072)
Weighted average number of common shares outstanding	103,920	104,423
Net loss per share	\$ (1.22)	\$ (.03)
Dividends per share	\$.64	\$.6325

H&R BLOCK, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
Unaudited, Amounts in Thousands

	SIX MONTHS ENDED	
	OCTOBER 31,	
	1996	1995
	----	----
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$ (126,354)	\$ (3,072)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	72,587	49,811
Amortization of deferred subscriber acquisition costs	86,255	2,821
Gain on sale of subsidiaries	-	(12,445)
Deferred subscriber acquisition costs	(39,832)	(28,920)
Provision for deferred taxes on earnings	(14,404)	17,749
Other noncurrent liabilities	2,539	2,813
Minority interest	(17,416)	-
Changes in:		
Receivables	(83,236)	(4,388)
Prepaid expenses	(13,344)	(37,629)
Accounts payable, accrued expenses and deposits	(30,106)	(15,003)
Accrued salaries, wages and payroll taxes	(93,590)	(46,872)
Accrued taxes on income	(90,583)	(75,575)
NET CASH USED IN OPERATING ACTIVITIES	(347,484)	(150,710)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of marketable securities	(132,471)	(354,642)
Maturities of marketable securities	417,167	607,353
Purchases of property and equipment	(94,962)	(101,156)
Excess of cost over fair value of net tangible assets acquired, net of cash acquired	(9,711)	(2,626)
Proceeds from sale of subsidiary	-	35,000
Other, net	(6,727)	11,577
NET CASH PROVIDED BY INVESTING ACTIVITIES	173,296	195,506
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayments of notes payable	(2,039,130)	(665,412)
Proceeds from issuance of notes payable	2,149,839	676,715
Dividends paid	(66,374)	(65,112)
Payments to acquire treasury shares	-	(59,453)
Proceeds from stock options exercised	2,312	7,522
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	46,647	(105,740)
NET DECREASE IN CASH	(127,541)	(60,944)
CASH AT BEGINNING OF PERIOD	339,055	90,248
CASH AT END OF PERIOD	\$ 211,514	\$ 29,304
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Income taxes paid	\$ 18,201	\$ 55,909
Interest paid	3,378	1,455

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

1. The Consolidated Balance Sheet as of October 31, 1996, the Consolidated Statements of Operations for the three and six months ended October 31, 1996 and 1995, and the Consolidated Statements of Cash Flows for the six months ended October 31, 1996 and 1995 have been prepared by the Company, without audit. In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position, results of operations and cash flows at October 31, 1996 and for all periods presented have been made.

Prior year amounts have been reclassified to conform to current year presentation.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. These consolidated financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's Annual Report on Form 10-K/A, Amendment Number 1, for the fiscal year ended April 30, 1996.

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

2. Other expenses for the six months ended October 31, 1996 include charges totaling \$25,563 recorded by the Computer Services segment. The current quarter includes a charge of \$7,850 due to the planned withdrawal of the WOW! online service from the marketplace as of January 31, 1997, and the previous quarter includes a charge of \$17,713 due to the estimated loss on 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.
3. In October 1996, the Computer Services segment changed its rate of amortization of deferred subscriber acquisition costs to more closely correlate with recent trends in subscriber retention rates and member net revenues. The new rate of amortization is 50% in the first three months, 30% over the next nine months, and 20% in the subsequent year, compared to the previous policy of 60% in the first 12 months and 40% in the subsequent year. In conjunction with this change in amortization rates, the Computer Services segment recorded an acceleration of amortization of previously deferred CompuServe Interactive Service subscriber acquisition costs totaling \$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. As stated above, the WOW! online service will be withdrawn from service in January 1997. All future subscriber costs for Sprynet will be expensed as incurred. The total \$45,381 adjustment of

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deferred subscriber acquisition costs is included in marketing expenses for the six months ended October 31, 1996.

4. On July 16, 1996, the Company's Board of Directors approved a plan to spin-off the Company's remaining ownership interest of approximately 80.1% in CompuServe Corporation ("CompuServe") on or about November 1, 1996. The spin-off was subject to, among other things, shareholder approval at the Company's annual meeting on September 11, 1996 and a favorable ruling

from the Internal Revenue Service as to the tax-free nature of the distribution.

On August 28, 1996, the Company's Board of Directors decided not to present the proposed spin-off to shareholders at the September 1996 annual meeting. This decision was based, in part, on CompuServe's reported first quarter and projected second quarter losses, market uncertainties related to the online industry and the planned September introduction of new interfaces for CompuServe Interactive Service and WOW!

5. During the six months ended October 31, 1996, the net unrealized holding gain on available-for-sale securities increased \$137 to \$1,306.
6. The Company files its Federal and state income tax returns on a calendar year basis. The Consolidated Statements of Operations reflect the effective tax rates expected to be applicable for the respective full fiscal years.
7. Net loss per common share is based on the weighted average number of shares outstanding during each period. The weighted average shares outstanding for the six months ended October 31, 1996 declined to 103,920,000 from 104,423,000 last year, due to repurchase of outstanding shares, principally in the second quarter of the prior fiscal year, partially offset by the issuance of treasury shares for stock option exercises and franchise acquisitions this fiscal year.
8. During the six months ended October 31, 1996 and 1995, the Company issued 50,045 and 200,327 shares, respectively, pursuant to provisions for exercise of stock options under its stock option plans. During the six months ended October 31, 1995 the Company acquired 1,555,500 shares of its common stock at an aggregate cost of \$59,453,000.
9. 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, 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, 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 United States District Court for the District of Minnesota, entitled Acker v. CompuServe Corporation, et al, but the plaintiffs have since voluntarily dismissed this suit and plan to join the plaintiffs in the Romine suit. The complaints in these three cases also name certain officers and directors of CompuServe at the time of the IPO as

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9 additional defendants. Each 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 the IPO. The Greenfield suit also alleges similar violations of the Ohio Securities Code and common law of negligent misrepresentation. Relief sought 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 disclosures in connection with the IPO. The defendants are vigorously defending these suits.

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FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FINANCIAL CONDITION

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

Working capital decreased from \$644.0 million at April 30, 1996 to \$416.4 million at October 31, 1996. The working capital ratio at October 31, 1996 is 2.1 to 1, compared to 2.3 to 1 at April 30, 1996. The decrease in working capital and working capital ratio must be viewed in the context of the Company's business which is seasonal, with peak activity in the fourth quarter, due to the nature of the Company's Tax Services segment. Tax return preparation occurs almost entirely in the fourth quarter and has the effect of increasing certain assets and liabilities during this time.

The Company has no long-term debt. However, the Company maintains seasonal lines of credit to support short-term borrowing facilities in the United States and Canada. During the months of January through April the Company's Canadian Tax Services regularly incurs short-term borrowings to purchase refunds due its clients. Block Financial Corporation (BFC), a wholly-owned subsidiary of the Company, incurs short-term borrowings throughout the year to fund receivables associated with its credit card, home equity loans and other financial service programs. At October 31, 1996, short-term borrowings used to fund credit card loans, home equity loans and other programs totaled \$183.4 million, compared to \$72.7 million at April 30, 1996.

BFC recently obtained a \$1.25 billion back-up credit facility to support their various financial activities over the next twelve months; however, this facility will reduce to a \$400 million year-round credit facility on April 30, 1997. During the upcoming tax season, BFC plans to use short-term borrowings to purchase a participating interest of 40 percent in certain Refund Anticipation Loans ("RALs") offered through Beneficial National Bank. RALs are loans that are expected to be retired by an income tax refund.

CompuServe Corporation ("CompuServe"), a majority-owned subsidiary of the Company, maintains a \$25 million line of credit to fulfill short-term cash requirements. This facility expires in June 1997, subject to renewal.

The Company's capital expenditures and dividend payments during the first six months were funded through internally-generated funds and the proceeds from CompuServe's initial public offering of its common stock in April 1996. The Company has obtained a \$50 million credit facility to support seasonal working capital needs from December 1996 through February 1997.

On July 16, 1996, the Company's Board of Directors approved a plan to spin-off the Company's remaining interest of approximately 80.1% in CompuServe on or about November 1, 1996. The spin-off was subject to, among other things, shareholder approval at the Company's annual

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meeting on September 11, 1996 and a favorable ruling from the Internal Revenue Service as to the tax-free nature of the distribution.

In the quarter ended July 31, 1996, CompuServe incurred a nonrecurring pretax charge of \$17.7 million relating to the potential sale or other disposition of certain assets and business operations of a corporate computer software group; the consolidation of 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.

On August 28, 1996, the Company's Board of Directors decided not to present the proposed spin-off to shareholders at the September 1996 annual meeting. This decision was based, in part, on CompuServe's reported first quarter and projected second quarter losses, market uncertainties related to the online industry and the planned September introduction of new interfaces for

CompuServe Interactive Service and WOW!

In October 1996, CompuServe changed its rate of amortization of deferred subscriber acquisition costs to more closely correlate with the recent trends in subscriber retention rates and member net revenues. As a result, CompuServe recorded accelerated amortization of previously deferred CompuServe Interactive Service subscriber acquisition costs of \$34.5 million in the current quarter. Additionally, CompuServe wrote-off all previously deferred WOW! and Sprynet subscriber acquisition costs totaling \$8.3 million and \$2.5 million, respectively, due to the high costs to service these high usage, flat-priced services.

On November 21, 1996, CompuServe announced a shift in its marketing emphasis to build on its leadership in the small-business professional and technical market sectors, and focus on profitable segments in the consumer markets. As a part of this shift, CompuServe will be withdrawing its family-oriented WOW! online service effective January 31, 1997, resulting in an additional nonrecurring pretax charge of \$7.9 million in the second quarter of fiscal 1997.

The Company announced in December 1993 its intention to repurchase from time to time up to 10 million of its shares on the open market. In July 1996, the Company announced its intention to repurchase up to 10 million additional shares in the open market over a two-year period following the spin-off of CompuServe. Such authorization is in addition to the 1993 authorization.

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RESULTS OF OPERATIONS

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

Prior year amounts have been reclassified to conform to current year presentation.

THREE MONTHS ENDED OCTOBER 31, 1996 COMPARED TO
THREE MONTHS ENDED OCTOBER 31, 1995
(AMOUNTS IN THOUSANDS)

	Revenues		Earnings (loss)	
	1996	1995	1996	1995
	----	----	----	----
Computer services	\$ 214,343	\$ 188,373	\$ (92,115)	\$ 22,072
Tax services	30,805	27,602	(41,576)	(34,351)
Financial services	9,984	6,815	(2,090)	(1,504)
Unallocated corporate	318	255	(3,081)	(2,554)
Corporate investment income	-	-	2,263	2,867
Intersegment sales	(2,000)	(1,999)	-	-
	-----	-----	-----	-----
	\$ 253,450	\$ 221,046	(136,599)	(13,470)
	=====	=====		
Income tax benefit			(50,940)	(5,172)
Net loss before minority interest			(85,659)	(8,298)
Minority interest			(11,531)	-
			-----	-----
Net loss			\$ (74,128)	\$ (8,298)
			=====	=====

Consolidated revenues for the three months ended October 31, 1996 increased 14.7% to \$253.450 million from \$221.046 million reported last year. The increase is primarily due to greater revenues reported by the Computer Services segment.

The consolidated pretax loss before minority interest for the second quarter of fiscal 1997 increased to \$136.599 million from \$13.470 million in the second quarter of last year. The significant change in the second quarter loss is attributable to the Computer Services segment which experienced decreased average revenue per member resulting from the reduced pricing structure introduced in September 1995, a nonrecurring pretax charge of \$7.850 million due to the planned withdrawal of the WOW! online service, an acceleration of amortization of previously deferred CompuServe Interactive Service subscriber acquisition costs of \$34.500 million, and the write-off of previously deferred WOW! and Sprynet subscriber acquisition costs totaling \$8.321 million and \$2.560 million, respectively.

The net loss was \$74.128 million, or \$.71 per share, compared to \$8.298 million, or \$.08 per share, for the same period last year.

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An analysis of operations by segment follows.

COMPUTER SERVICES

Revenues increased 13.8% to \$214.343 million from \$188.373 million in the comparable period last year, due to increases in Interactive Services and Network Services revenues. Interactive Services revenues were 8.4% better than last year as a result of an increase in the number of international subscribers. The number of CompuServe Interactive Service ("CSi") subscribers at October 31, 1996, exclusive of the Japanese licensee, increased 11.5% to 2.992 million from 2.684 million last year. Average monthly CSi total revenue per subscriber decreased 14.1% to \$15.06 for the quarter ended October 31, 1996, compared to \$17.54 for last year's second quarter. This decrease is primarily due to the new pricing structure implemented in September 1995. Average monthly CSi total revenue per subscriber includes revenues from fees, usage, product sales, online advertising, mail, magazine and CD-ROM subscriptions.

Network Services revenues were 33.5% better than last year due to an increase in the number of network customers and increased usage by existing customers. The number of network customers increased 22.9% over last year to 1,061. Commercial customer hours increased to 24.650 million hours this quarter from 10.728 million in last year's comparable quarter.

Operating expenses increased 87.6% to \$308.838 million from \$164.639 million last year. Over half of the increase is attributable to a \$73.907 million increase in marketing expenses this quarter compared to last year. Marketing expenses this quarter include an acceleration of amortization of previously deferred CSi subscriber acquisition costs of \$34.500 million. The amortization rate was accelerated to more closely correlate with recent trends in subscriber retention rates and member net revenues. All previously deferred WOW! and Sprynet subscriber acquisition costs totaling \$8.321 million and \$2.560 million, respectively, were written off, reflecting the high costs to service these high usage, flat-priced services. Costs directly associated with service revenues increased \$55.150 million to \$146.185 million as a result of increased network hours, higher outsourced customer service costs and additional customer service and network operations staff to support significant world-wide customer growth during the past year. Online subscriber hours increased 54.0% to 38.276 million hours for the second quarter of fiscal 1997 from 24.853 million hours in the comparable period last year. Also included in the current quarter is a nonrecurring pretax charge of \$7.850 million related to the withdrawal of the WOW! online service.

The pretax loss was \$92.115 million, compared to pretax earnings of \$22.072 million in the second quarter of fiscal 1996. The current quarter pretax loss includes investment income of \$2.380 million earned on the remaining IPO proceeds.

TAX SERVICES

Revenues increased 11.6% to \$30.805 million from \$27.602 million last year, due to an increase in the number of tax returns prepared and an increase in the average charge which is a continuation of a pricing strategy adopted last fiscal year.

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The pretax loss increased 21.0% to \$41.576 million from \$34.351 million in the second quarter of last year, due to first-time expenses in operating acquired franchises and competitors, investment in field management and existing offices, with the remainder due to normal inflationary and volume-related increases.

FINANCIAL SERVICES

Revenues increased 46.5% to \$9.984 million from \$6.815 million in the same period last year. Credit card revenues increased 27.0% to \$7.736 million from \$6.091 million in the prior year. Second quarter fiscal 1997 includes revenues of \$1.338 million from mortgage operations. Mortgage operations began in the third quarter of fiscal 1996.

The pretax loss increased to \$2.090 million from \$1.504 million in the second quarter of fiscal 1996, due to higher bad debt and interest expense related to increases in the credit card portfolio and new mortgage loan portfolio, partially offset by lower marketing and advertising which decreased due to timing differences of marketing campaigns between this year and last year.

INVESTMENT INCOME

Investment income decreased 21.1% to \$2.263 million from \$2.867 million last year. The decrease resulted from less funds available for investment and lower short-term interest rates in fiscal 1997.

CORPORATE AND ADMINISTRATIVE EXPENSES

The corporate and administrative pretax loss for the second quarter increased 20.6% to \$3.081 million from \$2.554 million in the comparable period last year. The increase resulted from higher shareholder-related expenses, a \$100 thousand fee paid during this quarter to increase the number of authorized shares from 200 million to 400 million, and \$247 thousand of expenses associated with the planned spin-off of the Company's remaining investment in CompuServe (see discussion under the Financial Condition section of Management's Discussion and Analysis).

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THREE MONTHS ENDED OCTOBER 31, 1996 (SECOND QUARTER) COMPARED TO
THREE MONTHS ENDED JULY 31, 1996 (FIRST QUARTER)
(AMOUNTS IN THOUSANDS)

	Revenues		Earnings (loss)	
	2nd Qtr	1st Qtr	2nd Qtr	1st Qtr
Computer services	\$ 214,343	\$ 208,642	\$ (92,115)	\$ (48,070)
Tax services	30,805	12,282	(41,576)	(45,229)
Financial services	9,984	8,224	(2,090)	(1,022)

Unallocated corporate	318	109	(3,081)	(3,579)
Corporate investment income	-	-	2,263	3,943
Intersegment sales	(2,000)	(1,999)	-	-
	-----	-----	-----	-----
	\$ 253,450	\$ 227,258	(136,599)	(93,957)
	=====	=====		
Income tax benefit			(50,940)	(35,846)
			-----	-----
Net loss before minority interest			(85,659)	(58,111)
Minority interest			(11,531)	(5,885)
			-----	-----
Net loss			\$ (74,128)	\$ (52,226)
			=====	=====

Consolidated revenues increased 11.5% to \$253.450 million from \$227.258 million in the first quarter of fiscal 1997. The increase is primarily due to higher revenues generated by the Tax Services segment related to the Australian tax filing season and higher revenues from the Computer Services segment.

The consolidated pretax loss before minority interest increased 45.4% to \$136.599 million from \$93.957 million for the three months ended July 31, 1996. The increase is largely due to expenses recorded by the Computer Services segment this quarter related to the planned withdrawal of the WOW! online service, the accelerated amortization of previously deferred CompuServe Interactive Service subscriber acquisition costs and the write-off of previously deferred WOW! and Sprynet deferred subscriber acquisition costs.

The net loss was \$74.128 million, or \$.71 per share, compared to \$52.226 million, or \$.50 per share, for the first quarter of fiscal 1997.

An analysis of operations by segment follows.

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COMPUTER SERVICES

Revenues increased 2.7% to \$214.343 million from \$208.642 million reported in the first quarter of fiscal 1997. The increase is due to greater revenues generated by the Interactive Services and Network Services divisions, offset by a decline in other revenues. Interactive Services and Network Services revenues for the three months ended October 31, 1996 increased 1.9% and 7.3%, respectively, as compared to the first quarter of fiscal 1997. Interactive Services revenues grew due to higher service usage which increased per-member revenues. The growth in Interactive Services is due to customer acquisitions, net of the effect of the new pricing structure implemented in September 1995. The growth in Network Services resulted from increasing usage and new customers.

The pretax loss increased 91.6% to \$92.115 million from \$48.070 million reported in the first quarter of fiscal 1997 due to the \$7.850 million nonrecurring pretax charge related to the planned withdrawal of the WOW! online service and the accelerated amortization of previously deferred CompuServe Interactive Service subscriber acquisition costs of \$34.500 million and the write-off of previously deferred WOW! and Sprynet deferred subscriber acquisition costs of \$8.321 million and \$2.560 million, respectively.

TAX SERVICES

Revenues increased to \$30.805 million from \$12.282 million in the first quarter of fiscal 1997. The increase partially resulted from the onset of the tax season in Australia, which contributed revenues of approximately \$11.5 million. U.S. revenues increased approximately \$7.7 million due to tuition tax school fees earned in the second quarter and increased sales of supplies to

franchisees, both of which are seasonal.

The pretax loss decreased 8.1% to \$41.576 million from \$45.229 million reported for the three months ended July 31, 1996. The decrease is due to earnings reported by Australian tax operations from its fiscal 1997 tax season partially offset by an increased loss in U.S. tax operations.

FINANCIAL SERVICES

Revenues increased 21.4% to \$9.984 million from \$8.224 million for the three months ended July 31, 1996, due to increased revenues associated with growth in credit cards outstanding and higher revolving balances, as well as increased mortgage loan receivables.

The pretax loss increased to \$2.090 million from \$1.022 million for the first quarter of fiscal 1997, due to higher interest and bad debt expenses related to the growth in credit card and mortgage loan portfolios. Marketing and advertising expenses increased over the prior quarter due to the timing of credit card, software and online services marketing campaigns.

INVESTMENT INCOME

Investment income decreased 42.6% to \$2.263 million from \$3.943 million earned for the three months ended July 31, 1996, due to the resources required to fund operations during the Tax Services segment's off-season.

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CORPORATE AND ADMINISTRATIVE EXPENSES

The corporate and administrative pretax loss decreased 13.9% to \$3.081 million from \$3.579 million in the first quarter of fiscal 1997, resulting from decreased employee costs, insurance and spin-off expenses, partially offset by increased shareholder-related expenses and the fee paid to increase the number of authorized shares.

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SIX MONTHS ENDED OCTOBER 31, 1996 (FYTD) COMPARED TO
SIX MONTHS ENDED OCTOBER 31, 1995 (FYTD)
(AMOUNTS IN THOUSANDS)

	Revenues		Earnings (loss)	
	1996	1995	1996	1995
Computer services	\$ 422,985	\$ 374,923	\$ (140,185)	\$ 66,202
Tax services	43,087	37,558	(86,805)	(75,570)
Financial services	18,208	13,107	(3,112)	1,980
Unallocated corporate	427	830	(6,660)	(4,773)
Corporate investment income	-	-	6,206	7,174
Intersegment sales	(3,999)	(4,010)	-	-
	<u>\$ 480,708</u>	<u>\$ 422,408</u>	<u>(230,556)</u>	<u>(4,987)</u>
Income tax benefit			(86,786)	(1,915)

Net loss before minority interest	(143,770)	(3,072)
Minority interest	(17,416)	-
	-----	-----
Net loss	\$ (126,354)	\$ (3,072)
	=====	=====

Consolidated revenues for the six months ended October 31, 1996 increased 13.8% to \$480.708 million from \$422.408 million reported last year. The increase is principally due to greater revenues reported by all operating segments.

The consolidated pretax loss before minority interest increased to \$230.556 million from \$4.987 million in the comparable period last year. The increased loss is largely due to the Computer Services segment which experienced a decline in average revenue per member primarily due to last year's pricing structure change, recorded nonrecurring pretax charges of \$25.563 million and had an increase in marketing expenses due to an acceleration of previously deferred CompuServe Interactive Service subscriber acquisition costs of \$34.500 million and the write-off of previously deferred WOW! and Sprynet subscriber acquisition costs of \$8.321 million and \$2.560 million, respectively, in this fiscal year.

The net loss was \$126.354 million, or \$1.22 per share, compared to \$3.072 million, or \$.03 per share, for the comparable period last year.

An analysis of operations by segment follows.

COMPUTER SERVICES

Revenues increased 12.8% to \$422.985 million from \$374.923 million last year due to increases in both Interactive Services and Network Services revenues. Interactive Services revenues were

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6.9% better than last year. The growth is due to an increase in customers and usage, offset by a pricing structure change introduced in September 1995. The number of CompuServe Interactive Service ("CSi") subscribers at October 31, 1996, exclusive of the Japanese licensee, increased 11.5% to 2.992 million from 2.684 million last year. Average monthly CSi total revenue per subscriber decreased 19.3% to \$14.76 for the six months ended October 31, 1996, from \$18.28 for the comparable prior year period. Network Services revenues were 32.5% better than last year, due to increasing usage and new customers. The number of network customers increased 22.9% over last year to 1,061. Commercial customer hours increased to 44.194 million from 20.458 million at October 31, 1995.

Operating expenses increased 86.1% to \$568.681 million from \$305.583 million last year. Costs directly associated with service revenues increased \$112.616 million, or 65.0%, as a result of increased network hours and higher outsourced customer service costs and additional customer service and network operations staff to support significant world-wide customer growth during the past year. Online subscriber hours increased 67.5% to 76.387 million hours for the six months ended October 31, 1996, from 45.602 million hours for the comparable prior year period. Marketing expenses for the six months increased \$105.361 million over last year primarily due to an acceleration of amortization of previously deferred CSi subscriber acquisition costs of \$34.500 million, the write-off of previously deferred WOW! and Sprynet subscriber acquisition costs of \$8.321 million and \$2.560 million, respectively, and the scheduled amortization of deferred subscriber acquisition costs. The current six months also include nonrecurrent charges totaling \$25.563 million before taxes. A nonrecurring pretax charge of \$17.713 million was recorded in the first quarter related to the estimated loss on the potential sale or other disposition of certain assets and business operations of a corporate computer software group; the consolidation of certain U.S.-based staff functions and office facilities; the renegotiation of certain third-party customer service agreements; and the

write-off of certain obsolete software costs for billing and customer service systems. The second quarter of fiscal 1997 includes a nonrecurring pretax charge of \$7.850 million related to the withdrawal of the WOW! online service from the marketplace as of January 31, 1997.

The pretax loss was \$140.185 million, compared to pretax earnings of \$66.202 million last year. The current fiscal year pretax loss includes investment income of \$5.511 million earned on the remaining IPO proceeds.

TAX SERVICES

Revenues increased 14.7% to \$43.087 million from \$37.558 million last year, due to an increase in the number of tax returns prepared and an increase in the average charge which is a continuation of a pricing strategy adopted last fiscal year partially offset by lower tuition tax school fees in the U.S.

The pretax loss increased 14.9% to \$86.805 million from \$75.570 million last year, due to first-time expenses in operating acquired franchises and competitors, investment in field management and existing offices, with the remainder due to normal inflationary and volume-related increases.

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FINANCIAL SERVICES

Revenues increased 38.9% to \$18.208 million from \$13.107 million last year. Credit card revenues increased 22.0% to \$14.533 million from \$11.909 million in the prior year. The six months ended October 31, 1996, include revenues of \$1.901 million from mortgage operations. Mortgage operations began in the third quarter of fiscal 1996.

The pretax loss was \$3.112 million, compared to pretax earnings of \$1.980 million for the comparable prior year period. Last year's results included a gain on the sale of MECA Software, Inc. of \$12.445 million, partially offset by a write-down of impaired assets associated with the tax preparation software business of \$8.389 million. Exclusive of these items, the pretax loss increased from a loss of \$2.076 million primarily due to increased bad debt and interest expense related to the growth in the credit card portfolio and the new mortgage operations.

INVESTMENT INCOME

Investment income decreased 13.5% to \$6.206 million from \$7.174 million last year. The decrease resulted from less funds available for investment and lower short-term interest rates in fiscal 1997.

CORPORATE AND ADMINISTRATIVE EXPENSES

The corporate and administrative pretax loss increased 39.5% to \$6.660 million from \$4.773 million last year, due to increased insurance and shareholder-related expenses, a \$100 thousand fee paid in the current fiscal year to increase the number of authorized shares and expenses of \$782 thousand associated with the planned spin-off of the Company's remaining investment in CompuServe (see discussion under the Financial Condition section of the Management's Discussion and Analysis).

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PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

The lawsuits discussed herein were reported in the Form 10-Q for the first quarter of fiscal year 1997. In June 1996, a purported shareholder class action complaint was filed against CompuServe Corporation ("CompuServe") and

the registrant 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 registrant 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 registrant 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., but the plaintiffs in such case have since voluntarily dismissed the suit and plan to join as plaintiffs in the Romine suit. The complaints in these three cases also name certain officers and directors of CompuServe at the time of the IPO as additional defendants. Each 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 the IPO. The Greenfield suit also alleges similar violations of the Ohio Securities Code and common law of negligent misrepresentation. Relief sought 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.

ITEM 2. CHANGES IN SECURITIES.

The registrant's Articles of Incorporation, as amended and restated, were further amended, effective upon the filing of the Certificate of Amendment with the Secretary of State of Missouri on September 18, 1996, to increase the number of authorized shares of Common Stock, without par value, from 200,000,000 shares to 400,000,000 shares. The aggregate number of shares of all classes of stock which the registrant now has authority to issue is 406,000,000, with the 400,000,000 authorized shares of Common Stock and 6,000,000 authorized shares of a class designated Preferred Stock, without par value. The amendment to the Articles of Incorporation was approved by the shareholders of the registrant at the annual meeting of shareholders held on September 11, 1996. The resolution approved by the shareholders is set forth in Item 4 to this Form 10-Q. The Certificate of Amendment of Articles of Incorporation of H&R Block, Inc. is filed as Exhibit 3(a) to this Form 10-Q and the Restated Articles of Incorporation, incorporating all amendments thereto are filed as Exhibit 3(b) to this Form 10-Q.

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

The annual meeting of shareholders of the registrant was held on September 11, 1996. At such meeting, three Class I directors were elected to serve three-year terms. In addition, the resolutions set forth below were submitted to a vote of shareholders. With respect to the election

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of directors and the adoption of each resolution, the number of votes cast for, against or withheld, and the number of abstentions or nonvotes were as follows:

Election of Class I Directors

Nominee	Votes FOR	Votes WITHHELD
Henry W. Bloch	84,063,803	1,144,786
Robert E. Davis	84,026,423	1,182,166
Frank L. Salizzoni	84,015,383	1,193,206

Approval of Amendment to Articles of Incorporation

The following resolution was adopted by a vote of 74,527,720 shares in

favor of such resolution, 10,073,557 shares against such resolution and 607,312 shares abstaining. The resolution states:

"RESOLVED, That ARTICLE THREE of the Articles of Incorporation of H&R Block, Inc., as heretofore amended, be further amended by deleting the first sentence thereof in its entirety and substituting therefor the following:

'ARTICLE THREE

The aggregate number of shares of all classes of stock which the corporation shall have authority to issue is 406,000,000, divided into two classes as follows:

(i) 400,000,000 shares of a class designated Common Stock, without par value; and

(ii) 6,000,000 shares of a class designated Preferred Stock, without par value.'" "

Adoption of the H&R Block Short-Term Incentive Plan

The following resolution was adopted by a vote of 81,325,253 shares in favor of such resolution, 2,947,119 shares against such resolution and 936,217 shares abstaining:

"RESOLVED, That the H&R Block Short-Term Incentive Plan included as Appendix D to the proxy statement relating to this meeting is hereby adopted and approved."

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Appointment of Auditors

The following resolution was adopted by a vote of 83,986,416 shares in favor of such resolution, 946,603 shares against such resolution and 275,570 shares abstaining:

"RESOLVED, That the appointment of Deloitte & Touche LLP as the independent auditors for H&R Block, Inc., and its subsidiaries for the year ending April 30, 1997, is hereby ratified, approved and confirmed."

At the close of business on July 12, 1996, the record date for the annual meeting of shareholders, there were 103,993,072 shares of Common Stock of the registrant outstanding and entitled to vote at the meeting. There were 85,208,589 shares represented at the annual meeting of shareholders held on September 11, 1996.

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

(a) Exhibits

- (3) (a) Certificate of Amendment of Articles of Incorporation of H&R Block, Inc. effective September 18, 1996.
- (3) (b) Restated Articles of Incorporation of H&R Block, Inc., as amended to the date of this Form 10-Q.
- (10) (a) H&R Block Short-Term Incentive Plan.
- (10) (b) Employment Agreement dated October 11, 1996, between the registrant and Frank L. Salizzoni.
- (27) Financial Data Schedule.

(b) Reports on Form 8-K

A Form 8-K, Current Report, dated August 28, 1996, was filed by the registrant reporting as an "Other Event" the registrant's issuance of a press release announcing that its Board of Directors had decided not to present to shareholders at its September 11, 1996 annual meeting the proposed spin-off of CompuServe 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 dated August 28, 1996, the registrant did not file any reports on Form 8-K during the second quarter of fiscal year 1997.

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SIGNATURES

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

H&R BLOCK, INC.

(Registrant)

DATE 12/12/96

BY /s/ George T. Robson

George T. Robson
Senior Vice President,
Chief Financial Officer
and Treasurer

DATE 12/12/96

BY /s/ Patrick D. Petrie

Patrick D. Petrie
Vice President and Corporate Controller

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CERTIFICATE OF AMENDMENT
OF
ARTICLES OF INCORPORATION
OF
H&R BLOCK, INC.

Pursuant to the provisions of the General and Business Corporation Laws of Missouri, the undersigned corporation, for the purposes of amending its Articles of Incorporation, hereby states as follows:

FIRST: The name of the corporation is H&R BLOCK, INC.

SECOND: The amendment herein described was duly adopted on September 11, 1996 by a majority of the outstanding shares of Common Stock of the corporation.

THIRD: The amendment so adopted is:

"RESOLVED, that ARTICLE THREE of the Articles of Incorporation of H&R Block, Inc., as heretofore amended, be further amended by deleting the first sentence thereof in its entirety and substituting therefor the following:

'ARTICLE THREE

The aggregate number of shares of all classes of stock which the corporation shall have the authority to issue is 406,000,000 divided into two classes as follows:

- (i) 400,000,000 shares of a class designated Common Stock, without par value; and
- (ii) 6,000,000 shares of a class designated Preferred Stock, without par value."

FOURTH: On the record date, the number of shares of the corporation's outstanding stock consisted of 103,993,072 shares of Common Stock, without par value. All of such shares were entitled to vote on the Amendment. The record date was July 12, 1996.

FIFTH: The number of shares voted in favor of the Amendment was 74,527,720, the number of shares voted against the Amendment was 10,073,557, and 607,312 shares abstained from voting.

IN WITNESS WHEREOF, the undersigned corporation has caused this Certificate to be executed by its President and its Secretary and verified by its President, and its corporate seal to be affixed thereto, on this 13th day of September, 1996.

H&R BLOCK, INC.

By:/s/ Frank L. Salizzoni

Frank L. Salizzoni,
President

By:/s/ James H. Ingraham

James H. Ingraham,

Secretary

(Corporate Seal)

FILED AND CERTIFICATE
ISSUED
SEP 18 1996
Rebecca McDowell Cook
SECRETARY OF STATE

ACKNOWLEDGMENT

STATE OF MISSOURI)
)ss.
COUNTY OF JACKSON)

I, the undersigned, a Notary Public, do hereby certify that on the 13th day of September, 1996, personally before me FRANK L. SALIZZONI and JAMES H. INGRAHAM, who, being by me first duly sworn, declare that they are the President and Secretary of H&R BLOCK, INC., a Missouri corporation, that they signed the foregoing document as President and Secretary of the corporation, and that the statements therein contained are true.

/s/ Mary D. Vogel

Notary Public

My Commission expires:
MARY D. VOGEL
Notary Public - State of Missouri
Commissioned in Jackson County
My Commission Expires May 24, 1997

RESTATED ARTICLES OF INCORPORATION

OF

H & R BLOCK, INC.

(As amended through September 18, 1996)

We, the undersigned, being natural persons of the age of twenty-one years or more and subscribers to the shares of the corporation under "The General and Business Corporation Act of Missouri", Chapter 351, R.S. Mo. 1949, do hereby adopt the following Articles of Incorporation.

ARTICLE ONE

The name of the corporation is: H & R BLOCK, INC.

ARTICLE TWO

The address of its initial registered office in the State of Missouri is: 3937 Main Street, in the City of Kansas City, Missouri, and the name of its initial registered agent at such address is: L. E. BLOCH, JR.

ARTICLE THREE

The aggregate number of shares of all classes of stock which the corporation shall have the authority to issue is 406,000,000 divided into two classes as follows:

- (i) 400,000,000 shares of a class designated Common Stock, without par value; and
- (ii) 6,000,000 shares of a class designated Preferred Stock, without par value.

The voting powers, designations, preferences, qualifications, limitations, restrictions and special or relative rights in respect of each class of stock are or shall be fixed as follows:

(1) Preferred Stock. The Board of Directors is expressly authorized to issue the Preferred Stock from time to time, in one or more series, provided that the aggregate number of shares issued and outstanding at any time of all such series shall not exceed 6,000,000. The Board of Directors is further authorized to fix or alter, in respect of each such series, the following terms and provisions of any authorized and unissued shares of such stock:

- (a) The distinctive serial designation;
- (b) The number of shares of the series, which number may at any time or from time to time be increased or decreased (but not below the number of shares of such series then outstanding) by the Board of Directors;
- (c) The voting powers and, if voting powers are granted, the extent of such voting powers including the right, if any, to elect a director or directors;
- (d) The election, term of office, filling of vacancies and other terms of the directorships of directors elected by the holders of any one or more classes or series of such stock;
- (e) The dividend rights, including the dividend rate and the dates on which any dividends shall be payable;
- (f) The date from which dividends on shares issued prior to the date for payment of the first dividend thereon shall be cumulative, if any;

- (g) The redemption price, terms of redemption, and the amount of and provisions regarding any sinking fund for the purchase or redemption thereof;
- (h) The liquidation preferences and the amounts payable on dissolution or liquidation;
- (i) The terms and conditions, if any, under which shares of the series may be converted; and
- (j) Any other terms or provisions which the Board of Directors is by law authorized to fix or alter.

(2) Common Stock. The holders of shares of Common Stock shall be entitled (i) to vote on all matters at all meetings of the shareholders of the corporation on the basis of one vote for each share of Common Stock held of record; (ii) subject to any preferential dividend rights applicable to the Preferred Stock, to receive such dividends as may be declared by the Board of Directors; and (iii) in the event of the voluntary, or involuntary, liquidation or winding up of the corporation, after distribution in full of any preferential amounts to be distributed to holders of shares of Preferred Stock, to receive all of the remaining assets of the corporation available for distribution to its shareholders, ratably in proportion to the aggregate number of their shares of Common Stock and Preferred Stock (if the holders of such Preferred Stock are entitled to share in such distribution).

(3) Provisions applicable to Common and Preferred Stock. No holder of shares of stock of the corporation of any class shall be entitled, as a matter of right, to purchase or subscribe for any shares of stock of the corporation, of any class, whether now or hereafter authorized. The Board of Directors shall have authority to fix the issue price of any and all shares of stock of the corporation of any class.

ARTICLE FOUR

The number of shares to be issued before the corporation shall commence business is: Twenty (20) shares of common stock, and the

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consideration to be paid therefor, and the capital with which the corporation will commence business, is: Two Thousand (\$2,000.00) Dollars. All of said shares have been first duly subscribed by the undersigned incorporators and have been paid up in lawful money of the United States.

ARTICLE FIVE

The names and places of residence of the subscribers and shareholders, and the number of shares of stock subscribed by each, are:

Name ----	Residence -----	No. of Shares -----
R. A. BLOCH	6501 Overbrook, Kansas City, Mo.	10
HENRY W. BLOCH	2026 W. 63rd St., Kansas City, Mo.	9
L. E. BLOCH, JR.	414 W. 58th St., Kansas City, Mo.	1

ARTICLE SIX

(A) Number of Directors. The number of directors to constitute the Board of Directors shall be not less than nine nor more than fifteen, the exact number to be fixed by a resolution adopted by the affirmative vote of a majority of the whole Board, but to be twelve until otherwise determined. Any change in the number of directors, as provided herein, shall be reported to the Secretary of State of Missouri within 30 calendar days of such change.

(B) Classification of Directors. At the annual meeting of the shareholders of the corporation in 1983, the directors of the corporation shall be divided into three classes: Class I, Class II and Class III. Membership in such classes shall be as nearly equal as possible and any increase or decrease in the number of directors shall be apportioned by the Board of Directors among the classes to maintain the number of directors as nearly as equal as possible.

The initial Class I directors shall hold office until the annual meeting of shareholders of the corporation in 1984, the initial Class II directors shall hold office until the annual meeting of shareholders of the corporation in 1985, and the initial Class III directors shall hold office until the annual meeting of shareholders of the corporation in 1986 or, in each case, until their successors are elected and qualified and subject to prior death, resignation, retirement or removal from office. Beginning in 1984, at each annual meeting of shareholders the directors elected to succeed those whose terms then expire shall belong to the same class as the directors they succeed and shall hold office until the third succeeding annual meeting of shareholders or until their successors are elected and qualified and subject to the prior death, resignation, retirement or removal from office of a director. No decrease in the number of directors constituting the Board of Directors shall reduce the term of any incumbent director.

Whenever the holders of any one or more classes or series of Preferred Stock of the corporation shall have the right to elect directors, the election, term of office, filling of vacancies and

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other terms of such directorships shall be governed by the provisions of these Article of Incorporation applicable to such Preferred Stock and such directors shall be divided into classes pursuant to this Article Six unless expressly provided or determined as provided elsewhere in these Articles of Incorporation.

(C) Vacancies. Newly created directorships resulting from an increase in the number of directors and any vacancies on the Board of Directors resulting from any cause shall be filled by a majority of the Board of Directors then in office, although less than a quorum, or by a sole remaining director. Any director elected to fill a vacancy not resulting from an increase in the number of directors shall have the same remaining term as his or her predecessor.

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

(E) Bylaws. The Board of Directors shall have the power to make, alter, amend, change, add to or repeal the Bylaws of the corporation.

ARTICLE SEVEN

The duration of the corporation is perpetual.

ARTICLE EIGHT

The purposes for which the corporation is formed are as follows:

(1) To perform bookkeeping services, including the preparation of books of account, balance sheets and profit and loss statements, to render tax services, including the preparation of tax returns, and to perform any and all other services directly or indirectly related thereto.

(2) To purchase, lease or otherwise acquire, hold, own, improve, develop, sell, mortgage, pledge and otherwise deal in and with real and personal property of every kind and description in the United States of America, and in any territory, colony, dependency or district thereof, and in any foreign country or countries to the extent that the same may be lawfully permissible.

(3) To buy, sell, utilize, lease, rent, import, export, manufacture, produce, design, prepare, assemble, fabricate, distribute and otherwise deal in, either at wholesale or retail, or both, either as principal, agent or on commission, all commodities, goods, wares, merchandise, machinery, tools, devices, apparatus, equipment and all other personal property, whether tangible or intangible, of every kind and description.

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(4) To buy, purchase, manufacture, assemble, distribute, lease (either as lessor or lessee), acquire, sell or in any manner dispose of, import, export, use, operate, rent, hire, mortgage, furnish, grant the use of, repair and generally deal in all kinds of construction, building and

engineering equipment, including, but not limited to, bulldozers, castings, cranes, compressors, concrete mixers, drag lines, dump wagons, earth moving machinery and equipment, plows, pumps, road machines, road rollers, scrapes, shovels, tractors, trucks and automobile equipment, and in general all kinds of machinery, appliances, devices, implements, tools, fixtures, instruments, supplies, materials, and property of every kind and description, usable or adaptable for use by contractors and civil engineers.

(5) To apply for, obtain, purchase, lease, take licenses in respect of or otherwise acquire, and to hold, own, use, operate, enjoy, turn to account, grant licenses in respect of, manufacture under, introduce, sell, assign, mortgage, pledge or otherwise dispose of:

a. Any and all inventions, devices and processes and any improvements and modifications thereof;

b. Any and all letters patent of the United States or of any other country, state or locality, and all rights connected therewith or appertaining thereto;

c. Any and all copyrights granted by the United States or any other country, state or locality as aforesaid;

d. Any and all trade-marks, trade names, trade symbols and other indications of origin and ownership granted by or recognized under the laws of the United States or of any other country, state or locality as aforesaid; and to conduct and carry on its business in any or all of its various branches under any trade name or trade names.

(6) To engage in, carry on and conduct research, experiments, investigations, analyses, studies and laboratory work, for the purpose of discovering new products or to improve products, articles and things and to acquire, own, operate, maintain and dispose of, whenever the corporation deems such action desirable, laboratories and similar facilities, plants and any and all other establishments, and to procure, own and hold all necessary equipment in respect thereof, for the purposes aforesaid.

(7) To enter into any lawful contract or contracts with persons, firms, corporations or other entities, governments or any agencies or subdivisions thereof, including guaranteeing the obligations of any person, firm, or corporation or other entity.

(8) To purchase and acquire, as a going concern or otherwise, and to carry on, maintain and operate all or any part of the property or business of any corporation, firm, association, entity, syndicate, or person whatsoever, deemed to be of benefit to the corporation, or of use in any manner in connection with any of its

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objects or purposes; and to acquire, own, hold and use and dispose of, upon such terms as may seem advisable to the corporation, any and all property, real, personal or mixed, and any interest therein deemed necessary, useful or of benefit to the corporation in any manner in connection with any of its objects or purposes.

(9) To purchase or otherwise acquire, hold, sell, pledge, reissue, transfer or otherwise deal in shares of the corporation's own stock, provided that it shall not use its funds or property for the purchase of its own shares of stock when such use would be in any manner prohibited by law, by the articles of incorporation or by the bylaws of the corporation; and, provided further, that shares of its own stock belonging to it shall not be voted upon directly or indirectly.

(10) To invest, lend and deal with moneys of the corporation in any lawful manner, and to acquire by purchase, by the exchange of stock or other securities of the corporation, by subscription or otherwise and to invest in, to hold for investment or for any other purpose, and to deal in and use, sell, pledge, or otherwise dispose of, and in general to deal in any interest concerning or enter into any transaction with respect to (including "long" and "short" sales of) any stocks, bonds, notes, debentures, certificates, receipts and other securities and obligations of any government, state, municipality, corporation, association or other entity, including individuals and partnerships and, while owner thereof, to exercise all of the rights, powers and privileges of ownership, including, among other things, the right to vote thereon for any and all purposes and to give consent with respect thereto.

(11) To borrow or raise money for any purpose of the corporation and to secure the same and the interest accruing on any such loan, indebtedness or obligation of the corporation, and for that or any other purposes to mortgage, pledge, hypothecate or charge all or any part of the present or hereafter acquired property, rights and franchises of the corporation, real, personal, mixed or of any character whatever, subject only to limitations specifically imposed by law.

(12) To do any or all of the things hereinabove enumerated alone for its own account, or for the account of others, or as the agent for others, or in association with others or by or through others, and to enter into all lawful contracts and undertakings in respect thereof.

(13) To have one or more offices, to conduct its business, carry on its operations and promote its objects within and without the State of Missouri, in other states, the District of Columbia, the territories, colonies and dependencies of the United States and in foreign countries, without restriction as to place, manner or amount, but subject to the laws of such state, district, territory, colony, dependency or country; and to do any or all of the things herein set forth to the same extent as natural persons might or could do and in any part of the world, either alone or in company with others.

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(14) In general, to carry on any other business in connection with each and all of the foregoing or incidental thereto, and to carry on, transact and engage in any and every lawful business or other lawful thing calculated to be of gain, profit or benefit to the corporation as fully and freely as a natural person might do, to the extent and in the manner, anywhere within or without the State of Missouri, as it may from time to time determine; and to have and exercise each and all of the powers and privileges, either direct or incidental, which are given and provided by or are available under the laws of the State of Missouri in respect of private corporations organized for profit thereunder; provided, however, that the corporation shall not engage in any activity for which a corporation may not be formed under the laws of the State of Missouri.

It is the intention that each of the objects, purposes and powers specified in each of the paragraphs in this Article Eight shall be in no wise limited or restricted by reference to or inference from the terms of any other paragraph, but that the objects, purposes and powers specified in each of the paragraphs of this Article Eight shall be regarded as independent objects, purposes and powers. The enumeration of the specific objects, purposes and powers of this Article shall not be construed to restrict in any manner the general objects, purposes and powers of this corporation, nor shall the expression of one thing be deemed to exclude another, although it be of like nature. The enumeration of objects, purposes or powers herein shall not be deemed to exclude or in any way limit by inference any objects, purposes or powers which this corporation has power to exercise, whether expressly or by force of the laws of the State of Missouri, now or hereafter in effect, or impliedly by any reasonable construction of such laws.

ARTICLE NINE

The private property of the shareholders shall not be subject to the payment of the corporate debt of the corporation.

ARTICLE TEN

Both the shareholders and directors shall have power, if the Bylaws so provide, to hold their meetings and to have one or more offices within or without the State of Missouri, and to keep books and records of the corporation business (subject to the provisions of the applicable laws of Missouri) outside of the State of Missouri, at such places as may be from time to time designated by the Board of Directors.

ARTICLE ELEVEN

Any contract, transaction or act of the corporation or of the directors, which shall be ratified by a majority of a quorum of the shareholders having voting power at any annual meeting, or at any special meeting called for such purpose, shall, except as otherwise specifically provided by law or by the Articles of Incorporation,

be as valid and as binding as though ratified by every shareholder of the corporation; provided, however, that any failure of the shareholders to approve or ratify such contract, transaction or act, when and if submitted, shall not of itself be deemed in any way to render the same invalid, nor deprive the directors of their right to proceed with such contract, transaction or act.

ARTICLE TWELVE

In case the corporation enters into contracts or transacts business with one or more of its directors, or with any firm of which one or more of its directors are members, or with any other corporation or association of which one or more of its directors are members or shareholders, directors or officers, such transaction or transactions shall not be invalidated or in any way affected by the fact that such director or directors have or may have interests therein which are or might be adverse to the interests of this corporation; provided that such contract or transaction is entered into in good faith and authorized or ratified in the usual course of business as may be provided for in the Bylaws of this corporation.

ARTICLE THIRTEEN

The corporation reserves the right to amend, alter, change, or repeal any provision contained in these Articles of Incorporation, in the manner as hereafter prescribed by statute, and all rights conferred upon stockholders herein are granted subject to this reservation.

ARTICLE FOURTEEN

Special meetings of the shareholders for any lawful purpose or purposes may be called only by a majority of the Board of Directors, by the holders of not less than 80% of all outstanding shares of stock of the corporation entitled to vote at an annual meeting, by the Chairman of the Board or by the President.

ARTICLE FIFTEEN

The affirmative vote of not less than 80% of the outstanding shares of the corporation entitled to vote in an election of directors shall be required for the approval or authorization of any Business Transaction (as hereinafter defined) with a Related Person (as hereinafter defined), whether or not such Business Transaction was approved by a lesser vote prior to the time the Related Person became a Related Person, unless:

- (1) The Business Transaction shall have been approved by a two-thirds vote of the Continuing Directors (as hereinafter defined); or
- (2) The Business Transaction is a merger or consolidation and the cash or fair market value of the property, securities or other consideration to be received per share by the holders of each class of stock of the corporation in the Business Transaction is not less

than such Related Person's Highest Purchase Price (as hereinafter defined).

For purposes of this Article Fifteen:

1. The term "Business Transaction" shall mean: (a) any merger or consolidation of the corporation or any subsidiary of the corporation; (b) any sale, lease, exchange, mortgage, pledge, transfer or other disposition (in one transaction or a series of transactions) of all or a Substantial Part (as hereinafter defined) of the assets of the corporation or any subsidiary; (c) the issuance, sale, exchange, transfer or other disposition by the corporation or any subsidiary of any securities of the corporation or any subsidiary; (d) any reclassification of securities (including any reverse stock split) or recapitalization of the corporation or any other transaction which has the effect, directly or indirectly, of increasing the voting power of a Related Person; (e) any liquidation, spinoff, split-up or dissolution of the corporation; and (f) any agreement, contract or other arrangement providing for any of the transactions described in this definition of Business Transaction.

2. The term "Related Person" shall mean and include any individual, corporation, partnership or other person or entity, other than the corporation or any wholly-owned subsidiary thereof, which, together with its "Affiliates" and "Associates" (as defined on June 1, 1983 in Rule 12b-2 under

the Securities Exchange Act of 1934 (the "Exchange Act"), "Beneficially Owns" (as defined on June 1, 1983, in Rule 13d-3 under the Exchange Act) in the aggregate 15 percent or more of the outstanding shares of the corporation entitled to vote in an election of directors at the time a resolution approving the Business Transaction is adopted by a two-thirds vote of the corporation's Board of Directors or on the record date for the determination of shareholders entitled to notice of and to vote on the Business Transaction, and any Affiliate or Associate of any such individual, corporation, partnership or other person or entity.

3. The term "Continuing Director" shall mean any member of the Board of Directors of the corporation who was either a member of the Board of Directors prior to the time that the Related Person became a Related Person or who subsequently became a director of the corporation and whose election, or nomination for election by the corporation's shareholders, was approved by a vote of a majority of the Continuing Directors.

4. The term "Highest Purchase Price" shall mean the highest amount of consideration paid by such Related Person for a share of the corporation's Common Stock within one year prior to the date such person became a Related Person or in the transaction that resulted in such Related Person becoming a Related Person, provided that the Highest Purchase Price shall be appropriately adjusted for stock splits, stock dividends and like distributions.

5. The term "Substantial Part" shall mean more than 20% of the fair market value of the total assets of the entity in

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question, as of the end of its most recent fiscal year ending prior to the time the determination is made.

ARTICLE SIXTEEN

The affirmative vote of the holders of not less than 80% of the outstanding shares of stock of this corporation entitled to vote generally in the election of directors shall be required to amend, modify, alter or repeal Articles Three, Six, Fourteen, Fifteen and Sixteen of these Articles of Incorporation or any provision of the corporation's Bylaws, provided that the affirmative vote of a majority of the votes entitled to be cast shall be sufficient to approve any such amendment, modification, alternation or repeal that has been adopted by a vote of 80% of the members of the Board of Directors and that the power of the Board of Directors to amend, modify, alter or repeal any Bylaw shall be governed by Section E of Article Six.

IN WITNESS WHEREOF, we have hereunto set our hands this 10th day of June, 1955

/s/ R. A. Bloch

R. A. BLOCH

/s/ Henry W. Bloch

HENRY W. BLOCH

/s/ L. E. Bloch, Jr.

L. E. BLOCH, JR.

H & R Block, Inc., a Missouri corporation whose original Articles of Incorporation were filed with the Secretary of State of Missouri on July 27, 1955, hereby states that the Restated Articles of Incorporation were duly adopted by a vote of the shareholders in accordance with the General and Business Corporation Law of Missouri, Section 351.106; that the Restated Articles of Incorporation correctly set forth without change the corresponding provisions of the Articles of Incorporation as theretofore amended, and that the Restated Articles of Incorporation supersede the original Articles of Incorporation and all amendments thereto.

IN WITNESS WHEREOF, the undersigned has caused these Restated Articles of Incorporation to be executed this 2 day of September, 1976.

H & R BLOCK, INC.

By /s/ Henry W. Bloch

Henry W. Bloch, President

By /s/ Richard A. Bloch

Richard A. Bloch, Secretary

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(CORPORATE SEAL)

STATE OF MISSOURI)
) SS
COUNTY OF JACKSON)

I, Corine Craig, a Notary Public, do certify that on this 2 day of September, 1976, personally appeared before me, HENRY W. BLOCH, who, being by me first duly sworn, declared that he is the President of H & R Block, Inc., that he signed the foregoing document as President of the corporation and that the statements therein contained are true.

/s/ Corine Craig

Notary Public

Corine Craig
My commission expires Dec. 12, 1978

H&R BLOCK SHORT-TERM INCENTIVE PLAN

ARTICLE I

GENERAL

Section 1.1 Purpose.

The purpose of the H&R Block Short-Term Incentive Plan (the "Plan") is to attract and retain highly qualified individuals as executive officers; to obtain from each the best possible performance in order to achieve particular business objectives established for H&R Block, Inc. (the "Company") and its subsidiaries; and to include in their compensation package a bonus component intended to qualify as performance-based compensation under Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Code"), which compensation would be deductible by the Company under the Code.

Section 1.2 Administration.

The Plan shall be administered by the Compensation Committee of the Company's Board of Directors (the "Committee") consisting of at least two members, each of which shall be an "outside director" within the meaning of Section 162(m) of the Code. The Committee shall adopt such rules and guidelines as it may deem appropriate in order to carry out the purpose of the Plan. All questions of interpretation, administration and application of the Plan shall be determined by a majority of the members of the Committee then in office, except that the Committee may authorize any one or more of its members, or any officer of the Company, to execute and deliver documents on behalf of the Committee. The determination of the majority shall be final and binding in all matters relating to the Plan. The Committee shall have authority to determine the terms and conditions of the Awards granted to eligible persons specified in Section 1.3 below.

Section 1.3 Eligibility.

Awards may be granted only to employees of the Company or any of its subsidiaries who are at the level of Assistant Vice President or at a more senior level and who are selected for participation in the Plan by the Committee. A qualifying employee so selected shall be a "Participant" in the Plan.

ARTICLE II

AWARDS

Section 2.1 Awards.

The Committee may grant annual performance-based awards ("Awards") to Participants with respect to each fiscal year of the Company, or a portion thereof (each such fiscal year or a portion thereof to constitute a "Performance Period"), subject to the terms and conditions of the Plan. Awards shall be in the form of cash compensation. Within 90 days after the beginning of a Performance Period, the Committee shall establish (a) performance goals and objectives ("Performance Targets") for the Company and the subsidiaries and divisions thereof for such Performance Period, and target awards ("Target Awards") for each Participant which shall be a specified dollar amount. The Committee shall specify the Performance Targets applicable to each

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Participant for each Performance Period and shall further specify the portion of the Target Award to which each Performance Target shall apply.

Section 2.2 Performance Targets.

Performance Targets established by the Committee each year shall be based of one or more of the following business criteria: (a) earnings, (b) revenues, (c) sales of products, services or accounts, (d) numbers of income tax returns prepared, (e) margins, (f) earnings per share, and (g) total shareholder return. For any Performance Period, Performance Targets may be

measured on an absolute basis or relative to internal goals, or relative to levels attained in fiscal years prior to the Performance Period.

Section 2.3 Employment Requirement.

To be eligible to receive payment of an Award, the Participant must have remained in the continuous employ of the Company or its subsidiaries through the end of the applicable Performance Period.

Section 2.4 Determination of Awards.

In the manner required by Section 162(m) of the Code, the Committee shall, promptly after the date on which the necessary financial or other information for a particular Performance Period becomes available, certify the extent to which Performance Targets have been achieved. The Committee shall then determine a performance percentage ("Performance Percentage") to be multiplied by the portion of the Target Award to which the Performance Target relates in order to arrive at the actual Award payout for each such portion. The Performance Percentage shall be determined in accordance with the following schedule:

% of Performance Target Achieved -----	Performance Percentage -----
Under 90%	0%
90%	50%
95%	90%
100%	100%
105%	120%
110%	140%
115%	170%
120% and above	200%

At the time that Target Awards are determined, the Committee may specify that the Performance Percentage attributable to any one or more portions of a Participant's Target Award may not exceed the Performance Percentage attributable to any other portion of the Participant's Target Award. In the event such specification is made, actual Award payouts shall be determined accordingly.

Section 2.5 Limitations on Awards.

The aggregate amount of all Awards under the Plan to any Participant for any Performance Period shall not exceed \$1,000,000.

Section 2.6 Payment of Awards.

Payment of Awards shall be made by the Company or the applicable employer subsidiary as soon as administratively practical following the certification by the Committee of the extent to which the applicable Performance Targets have been achieved and the determination of the actual Awards in accordance with Sections 2.4 and 2.5. All Awards under the Plan are subject to withholding, where applicable, for federal, state and local taxes.

Section 2.7 Adjustment of Awards.

In the event of the occurrence during the Performance Period of any recapitalization, reorganization, merger, acquisition, divestiture, consolidation, spin-off, split-off, combination, liquidation, dissolution, sale of assets, other similar corporate transaction or event, any changes in applicable tax laws or accounting principles, or any unusual, extraordinary or

nonrecurring events involving the Company which distorts the performance criteria applicable to any Performance Target, the Committee shall adjust the calculation of the performance criteria, and the applicable Performance Targets as is necessary to prevent reduction or enlargement of Participants' Awards under the Plan for such Performance Period attributable to such transaction or event. Such adjustments shall be conclusive and binding for all purposes.

ARTICLE III

MISCELLANEOUS

Section 3.1 No Rights to Awards or Continued Employment.

No employee of the Company or any of its subsidiaries shall have any claim or right to receive Awards under the Plan. Neither the Plan nor any action taken under the Plan shall be construed as giving any employee any right to be retained by the Company or any subsidiary of the Company.

Section 3.2 No Limits on Other Awards and Plans.

Nothing contained in this Plan shall prohibit the Company or any of its subsidiaries from establishing other special awards or incentive compensation plans providing for the payment of incentive compensation to employees of the Company and its subsidiaries, including any Participants.

Section 3.3 Restriction on Transfer.

The rights of a Participant with respect to Awards under the Plan shall not be transferable by the Participant otherwise than by will or the laws of descent and distribution.

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Section 3.4 Source of Payments.

The Company and its subsidiaries shall not have any obligation to establish any separate fund or trust or other segregation of assets to provide for payments under the Plan. To the extent any person acquires any rights to receive payments hereunder from the Company or any of its subsidiaries, such rights shall be no greater than those of an unsecured creditor.

Section 3.5 Effective Date; Term; Amendment.

The Plan is effective as of June 19, 1996, subject to approval by the Company's shareholders at the Company's 1996 annual meeting of shareholders, and shall remain in effect until such time as it shall be terminated by the Board of Directors of the Company. If approval of the Plan meeting the requirements of Section 162(m) of the Code is not obtained at the 1996 annual meeting of shareholders of the Company, then the Plan shall not be effective and any Award made on or after June 19, 1996, shall be void ab initio. The Board of Directors may at any time and from time to time alter, amend, suspend or terminate the Plan in whole or in part.

Section 3.6 Prohibited or Unenforceable Provisions.

Any provision of the Plan that is prohibited or unenforceable shall be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions of the Plan.

Section 3.7 Section 162(m) Provisions.

Any Awards under the Plan shall be subject to the applicable restrictions imposed by Code Section 162(m) and the Treasury Regulations promulgated thereunder, notwithstanding any other provisions of the Plan to the contrary.

Section 3.8 Governing Law.

The Plan and all rights and Awards hereunder shall be construed in accordance with and governed by the laws of the State of Missouri.

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT ("Agreement") is entered into as of October 11, 1996, by and between HRB MANAGEMENT, INC., a Missouri corporation ("HRB") and FRANK L. SALIZZONI ("Executive").

ARTICLE ONE

EMPLOYMENT

1.01 - Agreement as to Employment. HRB hereby employs Executive as President and Chief Executive Officer of H&R BLOCK, INC., a Missouri corporation ("Block") and the indirect parent corporation of HRB, and Executive hereby accepts such employment by HRB, subject to the terms of this Agreement. Subject to the terms of Section 1.06 of this Agreement, either party may terminate this Agreement for any reason, or no reason, by providing not less than 45 days' prior written notice of such termination to the other party, and, if such notice is properly given, this Agreement and Executive's employment hereunder shall terminate as of the close of business on the 45th day after such notice is deemed to have been given or such later date as is specified in such notice. Any termination of this Agreement shall not be effective as to those portions of this Agreement which, by their express terms as set forth below, require performance by either party following termination of this Agreement.

1.02 - Duties. (a) Executive is employed by HRB to serve as the President and Chief Executive Officer of Block subject to the authority and direction of Block's Board of Directors (the "Board") and, subject to the foregoing, the Executive shall have such authority and responsibility and duties as are normally associated with such position.

(b) So long as he is employed under this Agreement, Executive agrees to devote his full business time and efforts exclusively on behalf of HRB and Block and to competently and diligently discharge his duties hereunder. Executive shall not be prohibited from engaging in such personal, charitable, or other nonemployment activities as do not interfere with his full-time employment hereunder and which do not violate the other provisions of this Agreement. Executive may, following approval by the Board, become a member of the board of directors of a "for-profit" corporation or entity. Such approval will not be unreasonably withheld by the Board but such approval may be withheld if the Board reasonably determines that such activity conflicts with Executive's duties hereunder, either in terms of Executive's time to be devoted thereto or in terms of the relationship of such corporation's or entity's business to the present or future business then conducted or proposed to be conducted by Block, whether or not such business is directly competitive with the business of Block. Executive shall comply fully with all

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reasonable policies of HRB and Block as are from time to time in effect and applicable to his position.

1.03 - Compensation. (a) Base Salary. HRB shall pay to Executive during the period between September 17, 1996, and August 31, 1997, a minimum gross salary at an annual rate of \$500,000 ("Base Salary"), payable semimonthly or at any other pay periods as HRB may use for its other executive employees. The Base Salary shall be reviewed for adjustment by the Board or appropriate committee thereof no less often than annually during the term of Executive's employment hereunder and, if adjusted by the Board, such adjusted amount shall become the "Base Salary" for purposes of this Agreement.

(b) Additional Salary. HRB shall pay to Executive additional salary ("Additional Salary") through August 31, 1997, at an annual rate of \$150,000, payable semimonthly or at any other pay periods as HRB may use for the payment of base salary to its other executive employees, provided that payment of such Additional Salary shall commence on the first Base Salary pay date of Executive of the first calendar month after the last calendar month (the "Last Month") for which CompuServe Corporation ("CompuServe") pays to Henry F. Frigon, former interim Chairman of CompuServe, any fees ("Frigon Fees") for consultation or other services provided to CompuServe (other than

standard director fees) and then shall be paid at an annual rate equal to \$150,000 less the aggregate Frigon Fees paid for services provided by Frigon between October 1, 1996, and the last day of the Last Month and, provided further, that such Additional Salary shall cease as of the last day of the month, if any, in which Block's direct or indirect percentage ownership of CompuServe common stock is reduced below 50% or there occurs a sale or other disposition of all or substantially all of the assets of CompuServe to a person or entity not affiliated with Block. The Additional Salary shall be reviewed for adjustment by the Board or appropriate committee thereof no less often than annually during the term of Executive's employment hereunder and, if adjusted by the Board, such adjusted amount shall become the "Additional Salary" for purposes of this Agreement.

(c) Short-Term Incentive Compensation. As approved by the Compensation Committee of the Board, Executive shall participate in the H&R Block Short-Term Incentive Plan adopted by the Board in June 1996 and approved by the shareholders of Block in September 1996. Under such Plan, the Executive shall have a target bonus for fiscal year 1997 of \$325,000 and an opportunity to earn 200% of such target bonus. The payment of the actual award under the Plan shall be based upon two criteria: (i) the criteria applicable to \$250,000 of the target amount shall be the degree to which Block achieves its budgeted consolidated pre-tax earnings (exclusive of CompuServe) for fiscal year 1997; and (ii) the criteria applicable to \$75,000 of the target amount shall be the degree to which CompuServe achieves its budgeted consolidated pre-

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tax earnings for fiscal year 1997. For purposes of Executive's participation in such Plan for the fiscal year ending April 30, 1997, Executive shall be deemed to have been employed by HRB on May 1, 1996, and his actual incentive payout shall not be prorated.

(d) Stock Options. As approved by the Compensation Committee of the Board, Executive is granted on October 11, 1996, a nonqualified stock option under Block's 1993 Long-Term Executive Compensation Plan to purchase 250,000 shares of Block's common stock at a price per share equal to the closing price thereof on the New York Stock Exchange on the date of grant. Such option shall expire on the seventh anniversary of the date of grant and shall vest and become exercisable as to one-third of the shares covered thereby on each of the first three anniversaries of the date of grant.

(e) Performance Units. As approved by the Compensation Committee of the Board, Executive is awarded 6,500 performance units under the H&R Block Long-Term Performance Program (the "Program") for the Performance Period May 1, 1996 through April 30, 1999, subject to the terms of the Program. Such award is made as of the date of this Agreement and the provisions of Section 4 of the Program, limiting the time during which the award of the units under the Program may take place from May 1 to September 15 of any year, are waived for the purpose of the award to Executive.

(f) Relocation Benefits.

(i) HRB shall reimburse the Executive for all reasonable packing, shipping and transportation costs incurred by Executive in relocating himself, his family and personal property from Potomac, Maryland, to the Greater Kansas City Area. In addition, HRB shall reimburse Executive for the costs of interim (up to 120 days after the date of this Agreement) housing in Kansas City, prior to the time Executive's family relocates to Kansas City and for the costs of air fare, parking, etc.; for weekend trips to Potomac during such period.

(ii) HRB shall reimburse Executive for the reasonable and customary charges for real estate commissions and legal fees, if any, in connection with the sale of Executive's residence in Potomac, Maryland, and the purchase of a residence in the Greater Kansas City Area.

(iii) Executive shall exercise his reasonable best efforts to cause the sale at the highest price of his

Maryland residence. In the event that, despite such efforts, Executive is unable to sell such residence within six months after the date of this Agreement, upon request by Executive, HRB shall either:

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purchase such residence, free and clear of all liens and encumbrances, at a price equal to the mean average of three appraisals by three qualified, independent appraisers (one selected and paid for by HRB; one selected and paid for by Executive; and one selected by such appraisers and paid one-half by each of HRB and Executive); or, at HRB's election, cause such purchase to be made by an independent relocation service in accordance with economically similar arrangements.

1.04 - Business Expenses. HRB shall promptly pay directly, or reimburse Executive for, all business expenses, to the extent such expenses are paid or incurred by Executive during the term hereof in accordance with Block policy approved by the Board and in effect from time to time and to the extent such expenses are reasonable and necessary to the conduct by Executive of Block's business.

1.05 - Fringe Benefits. During the term of Executive's employment hereunder, HRB shall make available to Executive such insurance, sick leave, deferred compensation, stock options (also referred to in Section 1.03(d) above), retirement, vacation and other like benefits as are approved by the Board or the Compensation Committee thereof and provided from time to time to the other executive-level employees of HRB, Block or Block's other subsidiaries; provided, however, such benefits shall not be substantially dissimilar from those offered by HRB or Block during fiscal year 1997 to Executive's predecessor at Block. Executive shall be entitled immediately to 20 days of paid vacation each fiscal year during the term of his employment hereunder. Executive shall not be required to fulfill any waiting-period requirements in order to be eligible for participation in applicable, HRB health insurance plans.

1.06 - Termination Without Cause. (a) Except as provided in subsection (d) below, if HRB terminates Executive's employment without "cause" (as defined below), then, upon such termination of Executive's employment HRB shall continue to pay to Executive the Base Salary in effect upon such termination throughout the two-year period following such termination as the same would have been made had Executive remained employed by HRB hereunder.

(b) As used in this Agreement, the term "cause" shall refer only to any one or more of the following grounds:

(i) Executive's commission of an act materially and demonstrably detrimental to the good will of Block or any subsidiary of Block, which act constitutes gross negligence or willful misconduct by the Executive in the performance of his material duties to Block; or

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(ii) commission by Executive of any act of dishonesty or breach of trust resulting or intending to result in material personal gain or enrichment of Executive at the expense of Block or any subsidiary of Block; or

(iii) Executive's conviction of a misdemeanor (involving an act of moral turpitude) or a felony; or

(iv) for any reason (or no reason) at any time after the last day of Block's fiscal year during which Executive attains normal retirement age under Block's benefit plans; or

(v) Executive's death or total and permanent disability. The term "total and permanent disability" shall have the meaning ascribed thereto under any long-term disability plan maintained by HRB or Block for HRB executives.

(c) The termination of Executive's employment under this Agreement for any reason (or no reason) by HRB or by Executive during the 60-day period following the date of the occurrence of a "Change of Control" of Block shall be considered a termination of Executive's employment without cause for purposes of this Agreement. For the purpose of this subsection, a "Change of Control" shall mean:

(i) the acquisition, other than from Block, by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")), of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 35% or more of the then outstanding voting securities of Block entitled to vote generally in the election of directors, but excluding, for this purpose, any such acquisition by Block or any of its subsidiaries, or any employee benefit plan (or related trust) of Block or its subsidiaries, or any corporation with respect to which, following such acquisition, more than 50% of the then outstanding voting securities of such corporation entitled to vote generally in the election of directors is then beneficially owned, directly or indirectly, by all or substantially all of the individuals and entities who were the beneficial owners of the voting securities of Block immediately prior to such acquisition in substantially the same proportion as their ownership, immediately prior to such acquisition, of the then outstanding voting securities of Block entitled to vote generally in the election of directors, as the case may be; or

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(ii) individuals who, as of the date hereof, constitute the Board (as of the date hereof, the "Incumbent Board") cease for any reason to constitute at least a majority of the Board, provided that any individual or individuals becoming a director subsequent to the date hereof, whose election, or nomination for election by Block's shareholders, was approved by a vote of at least a majority of the Board (or nominating committee of the Board) shall be considered as though such individual were a member or members of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office is in connection with an actual or threatened election contest relating to the election of the directors of Block (as such terms are used in Rule 14a-11 of Regulation 14A promulgated under the Exchange Act); or

(iii) approval by the shareholders of Block of a reorganization, merger or consolidation of Block, in each case, with respect to which all or substantially all of the individuals and entities who were the respective beneficial owners of the voting securities of Block immediately prior to such reorganization, merger or consolidation do not, following such reorganization, merger or consolidation, beneficially own, directly or indirectly, more than 50% of the then outstanding voting securities entitled to vote generally in the election of directors of the corporation resulting from such reorganization, merger or consolidation, or a complete liquidation or dissolution of Block or of the sale or other disposition of all or substantially all of the assets of Block.

(d) The sale, distribution or other disposition by Block or a subsidiary of Block of all or substantially all of the common stock of CompuServe held by Block or a subsidiary of Block on the date of this Agreement, or the sale by Block or a subsidiary of Block of all or substantially all of the assets of CompuServe shall not constitute a "sale or other disposition of all or substantially all of the assets of Block" for purposes of subsection 1.06(c)(iii) of this Agreement.

(e) Upon termination of Executive's employment under this Agreement, except as set forth in this Section 1.06, HRB shall have no further obligations under this Agreement and no further payments of Base Salary, Additional Salary or bonus shall be payable by HRB to Executive, except as set forth in this Section 1.06 and except as required by the express terms of any written benefit plans or written arrangements maintained by HRB and applicable to Executive at the time of such termination of Executive's employment.

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ARTICLE TWO

CONFIDENTIALITY

2.01 - Background and Relationship of Parties. The parties acknowledge (for all purposes including, without limitation, Articles Two and Three of this Agreement) that Block and its subsidiaries have been and will be engaged in a continuous program of acquisition and development respecting their businesses, present and future, and that, in connection with Executive's employment by HRB, Executive will be expected to have access to all information of value to HRB and Block and that Executive's employment creates a relationship of confidence and trust between Executive and Block with respect to any information applicable to the businesses of Block and its subsidiaries. Executive will possess or have unfettered access to information that has been created, developed or acquired by Block and its subsidiaries or otherwise become known to Block and its subsidiaries and which has commercial value in the businesses in which Block and its subsidiaries have been and will be engaged and has not been publicly disclosed by Block. All information described above is hereinafter called "Proprietary Information". By way of illustration, but not limitation, Proprietary Information includes trade secrets, developments, designs, marketing plans, product information, business and financial information and plans, strategies, forecasts, new products and services, financial statements, budgets, projections, prices and acquisition plans. Proprietary Information shall not include any portions of such information which are now or hereafter made public by third parties in a lawful manner or made public by parties hereto without violation of this Agreement.

2.02 - Proprietary Information is Property of Block. (a) All Proprietary Information shall be the sole property of Block (or the applicable subsidiary of Block) and its assigns, and Block (or the applicable subsidiary of Block) shall be the sole owner of all patents, copyrights, trademarks, names and other rights in connection therewith and without regard to whether Block (or any subsidiary of Block) is at any particular time developing or marketing the same. Executive assigns to Block any rights Executive may have or may acquire in such Proprietary Information. At all times, Executive will keep in strictest confidence and trust all Proprietary Information and Executive will not use or disclose any Proprietary Information without the written consent of Block, except as may be necessary in the ordinary course of performing duties as an employee of HRB or an officer of Block or as may be required by law or the order of any court or governmental authority.

(b) In the event of the termination of Executive's employment by HRB for any reason (including no reason), Executive

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shall promptly deliver to HRB all copies of all documents, notes, drawings, specifications, documentation, data and other materials of any nature belonging to Block or any subsidiary of Block and obtained during the course of Executive's employment with HRB. In addition, upon such termination, Executive will not remove from the premises of Block or any subsidiary of Block any of the foregoing or any reproduction of any of the foregoing or any Proprietary Information that is embodied in a tangible medium of expression.

ARTICLE THREE

NON-HIRING; NO CONFLICTS; NONCOMPETITION

3.01 - General. The parties hereto acknowledge that, during the course of Executive's employment by HRB, the Executive shall have access to information valuable to HRB and Block concerning the key employees of Block and its subsidiaries ("Block Employees") and, in addition to Executive's access to such information, Executive may, during (and in the course of) Executive's employment by HRB, develop relationships with such Block Employees whereby information valuable to Block and its subsidiaries concerning the Block Employees was acquired by Executive. Such information includes, without limitation: the identity, skills and performance levels of the Block Employees, as well as compensation and benefits paid by Block to such Block Employees.

3.02 - Non-Hiring. During the period of Executive's employment hereunder and during the time Executive is receiving payments hereunder and for a period of one year after the later of: termination by HRB or Executive for any reason (or no reason) of such employment; or cessation of such payments, the Executive will not knowingly recruit, solicit or hire any Block Employee or otherwise induce any such Block Employee to leave the employment of Block (or the applicable employer-subsubsidiary of Block) to become an employee of or otherwise be associated with any other party or with Executive or any company or business with which Executive is or may become associated.

3.03 - No Conflicts. Executive represents that the performance by Executive of all the terms of this Agreement will not breach any agreement as to which Executive is or was a party and which requires Executive to keep any information in confidence or in trust. Executive has not brought with him to HRB or Block nor will Executive use in the performance of employment responsibilities at HRB any proprietary materials or documents of a former employer that are not generally available to the public, unless Executive has obtained express written authorization from such former employer for their possession and use. Executive has not and will not breach any obligation of confidentiality that

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Executive may have to former employers and Executive shall fulfill all such obligations during his employment with HRB.

3.04 - Non-Competition.

(a) During any period of Executive's employment with HRB, Executive shall not engage in, or own or control any interest in (except as a passive investor in publicly-held companies, holding less than one percent of its outstanding securities), or act as an officer, director or employee of, or consultant, advisor or lender to, any firm, corporation, institution or business which engages in any line of business which is competitive with any line of business of Block or any of its subsidiaries (or which Block or any subsidiary is engaged in evaluating or developing).

(b) During the time Executive is receiving payments hereunder and for a period of one year after the later of: termination of Executive's employment hereunder by HRB or Executive (for any reason including no reason); or cessation of such payments; Executive will not (except as permitted by subsection (c) below) own or control any interest in (except as a passive investor in publicly-held companies, holding less than one percent of its outstanding equity securities) or act as an officer, director or employee of, or consultant, advisor or lender to, any firm, corporation, institution or business which engages in any line of business which is competitive with any line of business of Block or any of its subsidiaries (or which Block or any such subsidiary is or was engaged in evaluating or developing) at the time Executive's employment terminates or during the 180-day period prior thereto.

(c) For purposes of subsection 3.04(b) above, as to Block, the term "line of business" shall not include any line of business which is

immaterial in quantity and character to the business and prospective businesses of Block or any subsidiary of Block; and, as to any corporation, firm, institution or business with which Executive proposes to become associated, as set forth in said subsection 3.04(b), any line of business which is immaterial in size within the industry it operates and to such corporation, firm, institution or business.

3.05 - Reasonableness of Restrictions. Executive acknowledges that the restrictions contained in this Agreement are reasonable but should any provisions of any Article of this Agreement be determined to be invalid, illegal or otherwise unenforceable or unreasonable in scope by any court of competent jurisdiction, the validity, legality and enforceability of the other provisions of this Agreement shall not be affected thereby and the provision found invalid, illegal or otherwise unenforceable or unreasonable shall be considered by HRB and Executive to be amended as to scope of protection, time or geographic area (or any one of them, as the case may be) in whatever manner is considered reasonable by that court and, as so amended, shall be enforced.

ARTICLE FOUR

MISCELLANEOUS

4.01 - Third-Party Beneficiary. The parties hereto agree that Block is a third-party beneficiary as to the obligations imposed upon Executive under this Agreement and as to the rights and privileges to which HRB is entitled pursuant to this Agreement, and that Block is entitled to all of the rights and privileges associated with such third-party-beneficiary status.

4.02 - Entire Agreement. This Agreement constitutes the entire agreement and understanding between HRB and Executive concerning the subject matter hereof. No modification, amendment, termination or waiver of this Agreement shall be binding unless in writing and signed by Executive and a duly authorized officer of HRB. Failure of HRB, Block or Executive to insist upon strict compliance with any of the terms, covenants or conditions hereof shall not be deemed a waiver of such terms, covenants and conditions.

4.03 - Specific Performance by Executive. Executive acknowledges that money damages alone will not adequately compensate HRB or Block for breach of any of Executive's covenants and agreements herein and, therefore, in the event of the breach or threatened breach of any such covenant or agreement by Executive, in addition to all other remedies available to HRB and Block at law, in equity or otherwise, HRB and Block shall each be entitled to injunctive relief compelling specific performance of (or other compliance with) the terms hereof.

4.04 - Successors and Assigns. This Agreement shall be binding upon Executive and the heirs, executors, assigns and administrators of Executive or his estate and property and shall inure to the benefit of HRB, Block and their successors and assigns. Executive may not assign or transfer to others the right to receive payments hereunder nor the obligation to perform duties hereunder.

4.05 - Withholding Taxes. From any payments due hereunder to Executive from HRB, there shall be withheld amounts reasonably believed by HRB to be sufficient to satisfy liabilities for federal, state and local taxes and other charges and customary withholdings. Executive remains primarily liable to such authorities for such taxes and charges to the extent not actually paid by HRB.

4.06 - Indemnification. To the fullest extent permitted by law and Block's Bylaws, HRB hereby indemnifies during and after the period of Executive's employment hereunder the Executive from

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and against all loss, costs, damages and expenses including, without limitation, legal expenses of counsel selected by HRB to represent the interests of Executive (which expenses HRB will, to the extent so permitted, advance to executive as the same are incurred) arising out of or in connection with the fact that Executive is or was a director, officer, employee or agent of HRB or Block or serving in such capacity for another corporation at the request of HRB or Block.

4.07 - Notices. Notices hereunder shall be deemed delivered five days following deposit thereof in the United States mails (postage prepaid) addressed to Executive at: 9735 Beman Woods Way, Potomac, Maryland 20854 and to HRB at: 4400 Main Street, Kansas City, Missouri 64111; Attn: Henry W. Bloch; or to such other address and/or person designated by either party in writing to the other party.

4.08 - Counterparts. This Agreement may be signed in counterparts and delivered by facsimile transmission confirmed promptly thereafter by actual delivery of executed counterparts.

Executed as a sealed instrument under, and to be governed by, construed and enforced in accordance with, the laws of the State of Missouri.

EXECUTIVE:

Dated: 12/10/96 /s/ Frank L. Salizzoni

Frank L. Salizzoni

Accepted and Agreed:

HRB MANAGEMENT, INC.,
a Missouri corporation

By: /s/ Henry W. Bloch

Henry W. Bloch, Chairman

Dated: 12/10/96

<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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