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

FORM 10-K

(Mark One)

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED: APRIL 30, 1998

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ----- to -----

Commission File Number: 1-6089

H&R BLOCK, INC.
(Exact name of registrant as specified in its charter)

Missouri	44-0607856
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
4400 Main Street, Kansas City, Missouri	64111
(Address of principal executive offices)	(Zip Code)

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

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

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

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

Common Stock, without par value
(Title of Class)

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

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

The aggregate market value of the voting stock held by non-affiliates of the registrant, computed by reference to the price at which the stock was sold on June 1, 1998, was $4,422,545,501.23

Number of shares of registrant's Common Stock, without par value, outstanding on June 1, 1998: 106,515,380.

DOCUMENTS INCORPORATED BY REFERENCE

Certain specified portions of the registrant's annual report to security holders for the fiscal year ended April 30, 1998, are incorporated herein by reference in response to Part I, Item 1, and Part II, Items 5 through 7 and Item 8, and certain specified portions of the registrant's definitive proxy statement filed within 120 days after April 30, 1998, are incorporated herein by reference in response to Part III, Items 10 through 13, inclusive.

PART I

ITEM 1. BUSINESS.

GENERAL DEVELOPMENT OF BUSINESS

H&R Block, Inc. is a corporation that was organized in 1955 under the laws of the State of Missouri (the "Company"). It is the parent corporation in a two-tier holding company structure following a 1993 corporate restructuring. The second-tier holding company is H&R Block Group, Inc., a Delaware corporation and the direct or indirect owner of the operating subsidiaries that provide tax and financial services to the general public principally in the United States, but also in Canada, Australia, the United Kingdom and other foreign countries. Approximately 86% of the consolidated revenues of the Company are generated by subsidiaries involved in tax return preparation, electronic filing of income tax returns and other tax-related services. The Company's subsidiaries also purchase participation interests in refund anticipation loans made by a third-party lender, originate, purchase, service, sell and securitize mortgages, and offer personal productivity software and credit card loans.

Developments during fiscal year 1998 within U.S. Tax Operations, International Tax Operations, Mortgage Operations and Credit Card Operations are described in the section below entitled "Description of Business."

On January 31, 1998, H&R Block Group, Inc. ("Group") completed the sale of its 80.1% interest in CompuServe Corporation ("CompuServe") to a subsidiary of WorldCom, Inc. ("WorldCom"). The sale was structured as a stock-for-stock transaction in which Group received 30,108,610 shares of WorldCom common stock in exchange for its 74,200,000 shares of CompuServe common stock. Group monetized 100% of its WorldCom stock through a block trade on February 2, 1998, and generated $1,032,699,000 in net proceeds from such monetization. Group's ownership of CompuServe stock had been reduced from 100% to approximately 80.1% as a result of CompuServe's initial public offering of its common stock in April 1996. Pursuant to the April 1996 offering, CompuServe sold 18,400,000 shares of its common stock to the public at $30.00 per share. The Company did not recognize a gain on the initial public offering. Additional paid-in capital was increased by the change in the Company's proportionate share of CompuServe's equity as a result of the initial public offering.

On June 17, 1997, Block Financial Corporation ("BFC"), a direct subsidiary of Group, purchased all of the stock of Option One Mortgage Corporation ("Option One") from Fleet Financial Group, Inc. ("Fleet"). Option One, with a network of more than 5,000 mortgage brokers in 46 states, engages in the origination, purchase, servicing, securitization and sale of nonconforming mortgage loans. The cash purchase price was $218.1 million in cash, consisting of $28.1 million in adjusted stockholder's equity and a premium of $190 million. In addition, BFC made a cash payment of $456.2 million to Fleet to eliminate intercompany loans made to Option One to finance Option One's mortgage

loan business. The $456.2 million payment was recorded as an intercompany loan from BFC to Option One and was repaid by Option One by the end of June 1997 after Option One sold mortgage loans to a third-party in the ordinary course of business. The acquisition was accounted for as a purchase and was ultimately financed with the issuance of $250 million in Senior Notes during the second quarter of fiscal year 1998.

During the fiscal year ended April 30, 1998, the Company was not involved in any bankruptcy, receivership or similar proceedings or any material reclassifications, mergers or consolidations, and the Company did not acquire or dispose of any material amount of assets during such year otherwise than in the ordinary course of business or in connection with the CompuServe and Option One transactions.

FINANCIAL INFORMATION ABOUT INDUSTRY SEGMENTS

The information required by Item 101(b) of Regulation S-K relating to financial information about industry segments is contained in the Notes to Consolidated Financial Statements in the Company's annual report to security holders for the fiscal year ended April 30, 1998, and is hereby incorporated herein by reference.

NUMBER OF EMPLOYEES

The Company, including its direct and indirect wholly owned subsidiaries, has approximately 2,600 regular full-time employees. The highest number of persons employed by the Company during the fiscal year ended April 30, 1998, including seasonal employees, was approximately 83,500.

DESCRIPTION OF BUSINESS

U.S. TAX OPERATIONS

Generally. This reportable operating segment provides to the general public in the United States income tax return preparation services, electronic filing services and other services related to income tax return preparation, purchases participation interests in refund anticipation loans made to tax clients by a third-party lending institution, and sells to the general public tax return preparation software and other personal productivity computer software.

Tax Operations. The income tax return preparation and related services business is the original core business of the Company. These services are provided to the public in the United States through a system of offices operated by H&R Block Tax Services, Inc. and its subsidiaries (collectively, "Tax Services") or by others to whom Tax Services has granted franchises. Tax Services and its franchisees (collectively referred to herein as "H&R Block") provide to the general public income tax return preparation services, electronic filing services and other services relating to income tax return preparation. For U.S. returns, H&R Block offers a refund anticipation loan service and an electronic refund service in conjunction with its electronic filing service. H&R Block also markets its knowledge of how to prepare income tax returns through its income tax training schools.

Taxpayers Served. H&R Block served approximately 15,835,000 taxpayers in the United States during fiscal year 1998, an increase from the 15,625,000 taxpayers served in fiscal year 1997. "Taxpayers served" includes taxpayers for whom H&R Block prepared income tax returns as well as taxpayers for whom Block provided only electronic filing services.

Tax Return Preparation. During the 1998 income tax filing season (January 2 through April 30), H&R Block offices in the United States prepared approximately 14,838,000 individual income tax returns, compared to the preparation of 14,302,000 such returns in fiscal year 1997 and 13,360,000 such returns in fiscal year 1996. These returns constituted about 13.1% of an IRS estimate of total individual income tax returns filed during fiscal year 1998. The following table shows the approximate number of income tax returns prepared at H&R Block offices during the last five tax filing seasons:

	Tax Season Ended April 30 (in thousands)				
	1994	1995	1996	1997	1998
Returns Prepared	13,036	12,918	13,360	14,302	14,838

During the tax season, most H&R Block offices are open from 9:00 a.m. to 9:00 p.m. weekdays and from 9:00 a.m. to 5:00 p.m. Saturdays and Sundays. Office hours are often extended during peak periods. Most tax preparation business is transacted on a cash basis. The procedures of Tax Services have been developed so that a tax return is prepared on a computer in the presence of the customer, in most instances in less than one hour, on the basis of information furnished by the customer. Pursuant to the one-stop service offered at Company-owned offices beginning in 1997, the return is reviewed for accuracy and presented to the customer for signature and filing during his or her initial visit to the office.

H&R Block Premium. In addition to its regular offices, H&R Block offers tax return preparation services at H&R Block Premium offices in the United States. Appealing to taxpayers with more complicated returns, H&R Block Premium stresses the convenience of appointments, year-round tax service from the same preparer and private office interviews. The number of H&R Block Premium offices increased from 581 in fiscal year 1997 to 598 in 1998. In fiscal 1998, the number of H&R Block Premium clients decreased to approximately 647,000, compared to approximately 666,000 in 1997. The Company plans to expand the H&R Block Premium segment of its tax return preparation business.

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

An eligible electronic filing customer may also apply for a refund anticipation loan ("RAL") at an H&R Block office. Under the 1998 RAL program, Tax Services' electronic filing customers who meet certain eligibility criteria are offered the opportunity to apply for loans from Beneficial National Bank in amounts based upon the customers' anticipated Federal income tax refunds. Income tax return information is simultaneously transmitted by H&R Block to the IRS and the lending bank. Within a few days after the date of filing, a check in the amount of the loan, less the bank's transaction fee and H&R Block's tax return preparation fee (and, where applicable, electronic filing fee), is received by the RAL customer. The IRS then directly deposits the participating customer's actual Federal income tax refund into a designated account at the bank in order for the loan to be repaid.

H&R Block also offers an electronic refund service pursuant to which an eligible electronic filing service customer's income tax refund is directly deposited into a bank account at a bank (Tax Services used Mellon Bank, N.A. in 1998) within approximately three weeks after the tax return is electronically filed, and a check is thereafter issued to the taxpayer in the amount of the refund, less the bank's transaction fee and H&R Block's tax return preparation fee (and, where applicable, electronic filing fee).

H&R Block filed approximately 9,423,000 U.S. tax returns electronically in fiscal 1998, compared to 7,279,000 in fiscal 1997 and 6,298,000 in fiscal 1996. Approximately 2,420,000 refund anticipation loans were processed in fiscal 1998 by H&R Block, compared to 2,573,000 in fiscal 1997 and 2,361,000 in fiscal 1996. Approximately 1,855,000 electronic refunds were processed in fiscal 1998 by H&R Block, compared to 1,871,300 in fiscal 1997 and 1,283,000 in fiscal 1996. Tax Services eliminated the electronic filing charge associated with non-bank services in approximately 70% of its offices in fiscal year 1998, thus encouraging more customers to file their returns electronically.

In 1998, H&R Block offered a service to transmit state income tax returns electronically to state tax authorities in 35 states and the District of Columbia (compared to 34 states and the District of Columbia in fiscal 1997) and plans to continue to expand this program as more states make this filing alternative available to their taxpayers.

Income Tax Courses. H&R Block offers to the public income tax return preparation courses that teach taxpayers how to prepare their own income tax returns, as well as provide H&R Block with a source of trained income tax return preparers. During the 1998 fiscal year, 130,884 students enrolled in H&R Block's basic and advanced income tax courses in the United States, compared to 111,428 students during fiscal year 1997 and 108,677 students during fiscal year 1996.

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

In addition to H&R Block's standard guarantee to pay penalty and interest attributable to errors made by an H&R Block preparer, under the "Peace of Mind" Program, H&R Block agrees to pay additional taxes owed by the customer (for which liability would not ordinarily accrue) resulting from such errors or from revised interpretations of tax laws by the IRS. The Peace of Mind Program has a per customer cumulative limit of $4,000 ($5,000 at H&R Block Premium offices) in additional taxes paid with respect to the Federal, state and local tax returns prepared by H&R Block for the taxable year covered by the Program.

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

In fiscal year 1998, H&R Block also operated 711 offices in department stores in the United States, including 707 offices in Sears, Roebuck & Co. stores operated as "Sears Income Tax Service by H&R Block." During the 1998 tax season, the Sears' facilities constituted approximately eight percent of the tax office locations of H&R Block. Tax Services is a party to a license agreement with Sears under which Tax Services will continue to operate in Sears locations throughout the United States. Such license agreement expires on December 31, 2004. Tax Services believes its relations with Sears to be excellent and that both parties to the license arrangement view the operations thereunder to date as satisfactory.

On April 15, 1998, there were 8,780 H&R Block offices in operation in the United States compared to 8,554 offices in operation on April 15, 1997, and 8,308 offices in operation on April 15, 1996. Of the 8,780 offices, 4,640 were owned and operated by Tax Services (compared to 4,483 in fiscal year 1997 and 4,031 in fiscal year 1996) and 4,140 were owned and operated by independent franchisees (compared to 4,071 in fiscal 1997 and 4,277 in fiscal 1996). Of such franchised offices in fiscal 1998, 2,630 were owned and operated by "satellite" franchisees of Tax Services (described below), 901 were owned and operated by "major" franchisees (described below) and 609 were owned and operated by satellite franchisees of major franchisees.

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

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

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

From time to time, Tax Services has acquired the operations of existing franchisees and other tax return preparation businesses, and it will continue to do so if future conditions warrant such acquisitions and satisfactory terms can be negotiated. In fiscal year 1998, Tax Services acquired 117 tax offices in the United States, including 69 H&R Block franchise offices and 48 offices of other tax businesses. In a transaction that became effective immediately after the end of fiscal year 1998, Tax Services acquired a major franchise operation serving a majority of Alabama and Mississippi and the panhandle of Florida through 111 offices operated by the major franchisee and 68 satellite offices.

Participation Interests in RALs. Block Financial Corporation is party to a July 1996 agreement with Beneficial National Bank ("Beneficial") to purchase a participation interest in refund anticipation loans provided by Beneficial to H&R Block tax customers. See "Electronic Filing" under "Tax Operations," above. In the 10-year agreement, BFC agreed to purchase an initial 40% participation interest in such RALs, which interest would be increased to nearly 50% in specified circumstances. BFC's purchases of the participation interests are financed through short-term borrowing. BFC bears all of the risks associated with its interests in the RALs. BFC's total RAL revenue in fiscal year 1998 was approximately $53.3 million (compared to revenue of $54.5 million in fiscal 1997), generating approximately $6.4 million in pretax profits (compared to $8.1 in pretax profits in fiscal year 1997). The decreases in revenues and pretax profits resulted from decreases in the number of RALs processed through Beneficial and an increase in the bad debt rate.

Software Products. BFC develops and markets the Kiplinger TaxCut(R) tax preparation software package, as well as markets the Kiplinger Home Legal AdvisorSM and Kiplinger Small Business AttorneySM software products. As a result of the increase in sales of TaxCut's final edition in fiscal year 1998, BFC believes that its share of retail sales in the income tax return preparation software market is greater than 30%.

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

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

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

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

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

America's Largest Tax Service
Nation's Largest Tax Service

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

BFC claims ownership of the following trademarks registered on the principal register of the United States Patent and Trademark Office:

B and Design
Block Financial
Block Financial and Design
Names & Dates
TaxCut

BFC also claims ownership of the following unregistered service marks and trademarks used in connection with the software business:

Home Legal Advisor
NETWEALTH
Small Business Attorney

Competitive Conditions. The tax return preparation and electronic filing businesses are highly competitive. There are a substantial number of tax return preparation firms and accounting firms that offer tax return preparation services. Many tax return preparation firms, and many firms not otherwise in the tax return preparation business are involved in providing electronic filing and refund anticipation loan services to the public. Commercial tax return preparers and electronic filers are highly competitive with regard to price, service and reputation for quality. Tax Services believes that, in terms of the number of offices and tax returns prepared, it is the largest tax return preparation firm in the United States. Tax Services also believes that in terms of the number of offices and tax returns electronically filed in fiscal year 1998, it is the largest provider of electronic filing services in the United States.

The software business is highly competitive and consists of a large number of companies. In the software industry, Intuit, Inc. is a dominant supplier of personal financial software.

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

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

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

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

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

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

The repayment of RALs generally depends on IRS direct deposit procedures. The IRS may from time to time change its direct deposit procedures or may determine not to make direct deposits of all or portions of a borrower's Federal income tax refund. The failure of the IRS to make direct deposits of refunds may impair the lender's ability to collect a RAL and result in a loss to BFC in connection with its purchases of interests in RALs. However, the Company believes that Federal statutes and regulations regulating electronic filing and RALs have not had and will not have a material adverse effect on the operations of BFC. However, the Company cannot predict what the effect may be of the enactment of new Federal or state statutes or the adoption of new regulations.

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

From time to time, and especially in election years, the subjects of tax reform, tax simplification, the restructuring of the tax system, a flat tax, a consumption tax, a value-added tax or a national sales tax surface. While each flat tax proposal and most other tax simplification proposals

have fallen short of adoption, such issues have received more serious attention during the past few years than ever before. Historically, changes in tax laws have increased H&R Block's business. The immediate result of tax law changes has been an increase in complexity. The transition from the current system to a new, untested system is likely to take a number of years and, under most serious tax reform proposals, Americans will still need to file Federal and state tax returns. The Company believes that customers will still come to H&R Block for convenience, accuracy and answers to tax questions. However, if enacted, the effect of tax reform or simplification legislation on the business of the

Company's subsidiaries over time is uncertain, and such legislation could have a material adverse effect on the Company's business, financial position and results of operations.

INTERNATIONAL TAX OPERATIONS

Generally. This reportable operating segment provides the preparation of Canadian tax returns in Canada, Australian tax returns in Australia, and U.S. income tax returns in other countries. With the commencement of tax season in the United Kingdom in April 1997, a subsidiary of the Company also began offering tax return preparation services in the United Kingdom. Tax preparation services are offered by franchisees in eight countries. The electronic filing of U.S. income tax returns is offered at franchised offices located in Europe, and the electronic filing of Australian and Canadian income tax returns is offered at H&R Block offices in Australia and Canada, respectively.

The returns prepared at 1,348 H&R Block offices in countries outside of the United States constituted 13.8% of the total returns prepared by H&R Block in the last fiscal year (compared to 15.2% in fiscal year 1997).

Canadian Operations. H&R Block Canada, Inc. ("Block Canada") and its franchisees prepared approximately 1,945,000 Canadian regular and discounted returns filed with Revenue Canada during the 1998 income tax filing season, compared with 2,156,000 Canadian returns prepared during fiscal year 1997 and 2,223,000 Canadian returns prepared in fiscal 1996. The number of offices operated by H&R Block in Canada decreased from 1,021 in fiscal year 1997 to 928 in fiscal year 1998. Of the 928 offices in Canada, 467 were owned and operated by Block Canada and 461 were owned and operated by franchisees. H&R Block operated 89 offices in department stores in Canada in fiscal year 1998, including 83 offices in Sears' facilities.

Block Canada and its franchisees offer a refund discount ("CashBack") program to their customers in Canada. The procedures which H&R Block must follow in conducting the program are specified by Canadian law. In accordance with current Canadian regulations, if a customer's tax return indicates that such customer is entitled to a tax refund, a check is issued by H&R Block to the customer for an amount which is equal to the sum of (1) 85% of that portion of the anticipated refund which is less than or equal to $300 and (2) 95% of that portion of the refund in excess of $300. The customer assigns to H&R Block the full amount of the tax refund to be issued by Revenue Canada. The refund check is then sent by Revenue Canada directly to H&R Block and deposited by H&R Block in its bank account. In accordance with the law, the discount is deemed to include both the tax return preparation fee and the fee for tax refund discounting. This program is financed by short-term borrowing. The number of returns discounted under the CashBack program decreased to approximately 532,000 in fiscal year 1998 from 583,000 in fiscal year 1997 and 681,000 in fiscal year 1996.

Block Canada acquired Cashplan Systems Inc., a company providing check-cashing and other low-end financial services in January 1997. Operating under the name "CashPlan," this service complements the CashBack service.

In 1998, Block Canada continued to test the separation of CashBack offices from regular tax return preparation offices in some parts of Canada. Operating under the "Financial Stop" name (without H&R Block signage), 147 offices offered the CashBack refund discounting services, as well as the preparation of simple tax returns and check cashing services.

Australian Operations. The number of returns prepared by H&R Block Limited, the Company's indirect subsidiary in Australia, and by franchisees in Australia, increased to approximately 406,000 in fiscal year 1998 from 403,000 in fiscal 1997 and 389,000 in fiscal year 1996. The number of offices operated by H&R Block in Australia in fiscal year 1998 was 334, compared to 302 offices operated in fiscal year 1997 and 297 offices operated in fiscal 1996. Of the 334 offices, 199 were owned and operated by H&R Block Limited and 135 were franchised offices. The tax season in Australia begins in July and ends in October.

United Kingdom Operations. In April 1997, an indirect subsidiary of the

Company purchased The Tax Team Limited, a Horsham-based firm with 12 offices throughout the United Kingdom. The Tax Team retained its name and opened 16 additional offices in major markets across the United Kingdom during fiscal year 1998.

Government Regulation. Statutes and regulations relating to income tax return preparers, electronic filing, franchising and other areas affecting the income tax business also exist outside of the United States. In addition, the Canadian government regulates the refund discounting program in Canada, as discussed under "Canadian Operations," above. These laws have not materially affected the international tax operations conducted by subsidiaries of the Company.

MORTGAGE OPERATIONS

Generally. The mortgage operations reportable segment is primarily engaged in the origination, purchase, servicing, securitization and sale of nonconforming mortgage loans in the United States. Nonconforming mortgages are those that may not be offered through government-sponsored loan agencies. Mortgage origination services were offered in fiscal year 1998 through a network of mortgage brokers in 46 states and through H&R Block tax offices in 15 states.

Option One Mortgage Corporation. The Company's commitment to the nonconforming mortgage business was exemplified during fiscal year 1998 by the June 1997 purchase from Fleet Financial Group, Inc. of Option One Mortgage Corporation, a firm engaged in all of the aspects of the nonconforming mortgage loan business noted above. See the discussion of such acquisition under "General Development of Business," above. Option One, based in Santa Ana, California, has a network of more than 5,000 mortgage brokers in 46 states and originated approximately $1.9 billion in mortgage loans in fiscal year 1998 after its acquisition. Between the date of its acquisition and April 30, 1998, Option One sold approximately $1.8 billion of mortgage loans through whole-loan sales. At the end of fiscal year 1998, Option One's servicing portfolio was 42,800 loans totaling more than $4.3 billion.

Option One was organized in October 1992 as a wholly owned subsidiary of Plaza Home Mortgage Corporation ("Plaza") and began operations in February 1993. It became a wholly owned subsidiary of Fleet National Bank ("FNB"), which was a subsidiary of Fleet Financial Group, Inc., when Plaza was purchased by FNB in March 1995.

Option One predominantly originates first mortgage loans to borrowers with sub-prime credit characteristics who have built up substantial equity in their homes. These borrowers use the loans primarily for debt consolidation purposes. The average Option One loan during fiscal year 1998 had a $99,800 principal balance and was secured by a first lien on a single family residence.

In the nonconforming loan business, a borrower will complete a loan application with a loan broker and the broker will distribute the application to one or more nonconforming lenders such as Option One. These lenders are generally selected by the broker based upon level of fees received, response time and approval experience with similar borrowers. Upon receipt of a deal satisfactory to the broker, the borrower is required to pay a non-refundable fee for an appraisal and for processing the application. This fee goes to the lender. At closing, the borrower will receive the loan proceeds net of other fees such as broker origination fees and document preparation fees. The broker will close the loan using the broker's funds or funds loaned to the broker by the nonconforming lender under a "warehouse line." When the statutory rescission period expires, the broker sells the loan to the lender at a prearranged premium.

Option One historically has packaged and sold substantially all of its loans on a whole-loan basis into the secondary market with servicing retained by Option One.

During fiscal year 1998, Option One opened retail branches in Pleasanton, California, and Tampa, Florida. Such branches offered mortgages to customers by means of direct mail solicitations and telemarketing.

Option One provides the Company with experienced associates in the nonconforming mortgage lending business. Option One will assist H&R Block Mortgage Company, L.L.C. in handling mortgage applications, loan processing and underwriting of mortgages generated through H&R Block Mortgage Company's retail operations, discussed below.

H&R Block Mortgage Company. H&R Block Mortgage Company, L.L.C. ("Block Mortgage"), formerly Block Mortgage Company, L.L.C., is a limited liability company in which H&R Block Tax Services, Inc. owns a 99% membership interest and BFC owns a 1% membership interest. After testing the sale of sub-prime second mortgage products in 31 H&R Block tax offices in four states during fiscal year 1997, Block Mortgage expanded the test during fiscal year 1998 by offering more mortgage products, including VA, FHA and conventional mortgages, and by offering mortgage products at H&R Block offices in 32 cities and 15 states. H&R Block Premium offices were used for this expanded test. Block Mortgage funded 536 mortgage loans totaling $25.5 million during fiscal year 1998.

Following the end of fiscal year 1998, plans were made to combine the retail operations of Option One and Block Mortgage to create greater teamwork, efficiency, productivity and profitability.

Companion Mortgage Corporation. The sole business activity of Companion Mortgage Corporation ("Companion"), a wholly owned subsidiary of BFC, consists of purchasing, investing in, securitizing and selling nonconforming fixed and adjustable-rate mortgage loans, primarily purchase money loans, refinancings and home equity borrowings. The purchased loans are originated through retail, wholesale and correspondent lending programs conducted through National Consumer Services Corp., L.L.C. (a firm in which Block Mortgage purchased in fiscal year 1998 a 40% interest pursuant to a warrant), Block Mortgage or other mortgage loan originators.

In the securitization process, a subsidiary of Companion, Block Mortgage Finance, Inc., acquires loans from Companion and assigns them to a trust. The trust issues certificates that are secured by the home equity loans, receives principal and interest payments on the loans and makes payments on the asset-backed certificates. Block Mortgage Finance, Inc. applies the net proceeds from the sale of the certificates primarily to the purchase of mortgage loans from Companion, and Companion then uses the funds primarily to repay indebtedness incurred to obtain funds for its acquisition of the loans. The securities are issued under a $1 billion public registration that became effective in January 1997.

Companion and Block Mortgage Finance completed their second and third securitizations of nonconforming mortgage loans during fiscal year 1998. A $215 million asset-backed security issue closed on July 29, 1997 and a $184 million issue closed on January 27, 1998.

Service Marks and Trademarks. Block Mortgage claims ownership of the service mark "BLOCK MORTGAGE" registered on the principal register of the United States Patent and Trademark Office.

Option One claims ownership of the following service marks and trademarks registered on the principal register of the United States Patent and Trademark Office:

AppOne
CorOne
Highway 1
HouseKeeper
No Sweat 95!
Option One and Design
The Big 2

Option One claims ownership of the following unregistered service marks and trademarks:

PartnerPlus
SumOne

Competitive Conditions. The residential mortgage loan market is the largest consumer finance market in the United States. The sub-prime loan sector of the mortgage industry has grown at a faster rate than the overall market and is highly competitive. Despite the rapid growth and size of this market, it is a relatively fragmented industry. No firm is a dominant supplier of nonconforming mortgage loans.

In the sub-prime lending business, service is the most important consideration to most customers. Price is a secondary consideration. The typical sub-prime customer, whether the broker through a correspondent program or the mortgagor through a retail branch, is motivated to select a particular lender out of a belief that the lender can close the loan.

The market for sub-prime lending exists in part due to the inability and unwillingness of some banks and thrifts to hold these loans. Without these institutions, a significant opportunity existed for specialty companies. However, many banks and thrifts have realized the value sub-prime lending can hold and are now entering the market.

Government Regulation.

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

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

CREDIT CARD OPERATIONS

Generally. BFC's credit cards (which, at April 30, 1998, consisted of the CompuServe Visa and WebCard(R) Visa cards) are currently issued under a co-branding agreement between BFC and Columbus Bank and Trust Company, Columbus, Georgia. Approximately 135,000 BFC credit cards were issued at the end of fiscal year 1998, compared to 167,000 accounts at the end of fiscal year 1997 and 119,000 accounts at the end of fiscal 1996. The aggregate portfolio for the credit cards issued by BFC was approximately $201.4 million at the end of fiscal year 1998 compared to $246 million at the end of fiscal year 1997 and $165 million at the end of fiscal year 1996.

BFC commenced the conversion of the CompuServe Visa credit cards to WebCard Visa cards following the end of fiscal year 1998 and plans to sell the portfolio solely under the WebCard name.

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

CONDUCTOR	Web
CONDUCTOR and Baton Design	WebBank
CONDUCTOR and Hand-Held Baton Design	WebCard
CONDUCTOR CARD REVIEW	WebPay
FINANCIAL FINDER	

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

Audit Buster	WebAccount
CONDUCTOR.COM	WebBroker
DittoCard	WebBuyer
Download Depot	WebCheck
Fast Lane	WebChecking
NetGuard	WebQuote

BFC claims ownership of the patent "SYSTEM FOR ON-LINE FINANCIAL SERVICES USING DISTRIBUTED OBJECTS" registered as Patent No. 5,706,442 on January 6, 1998 on the principal register of the United States Patent and Trademark Office.

OTHER BUSINESS

Generally. The Company is developing other businesses compatible with its current operations and strategy.

HRB Investments, Inc. During the 1998 fiscal year, HRB Investments, Inc., a wholly owned subsidiary of BFC, test-marketed financial planning services in four cities. Independent licensed securities brokers offered retirement planning, financial planning and financial products, such as annuities, mutual funds and insurance products, at select H&R Block Premium offices. These financial services will be offered to clients throughout the year.

HRB Business Services, Inc. HRB Business Services, Inc., a subsidiary of H&R Block Group, Inc., plans to build a national accounting practice through its acquisition of both regional and local accounting firms. Following the end of the fiscal year 1998, HRB Business Services, Inc. acquired Donnelly, Meiners, Jordan Kline, P.C., a regional accounting firm in Kansas City, Missouri, offering accounting and auditing services, tax planning and reporting services, profitability improvement and strategic planning, business valuation, litigation support and fraud investigation, public finance verification services to its business clients, and individual tax, estate planning and financial planning services.

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

ITEM 2. PROPERTIES.

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

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

Option One's executive offices are located in leased offices at 2020 East First Street, Santa Ana, California and 3 Ada, Irvine, California. Option One also leases offices in Pleasanton, California, and Tampa, Florida, for its retail operations and branch offices throughout the United States.

ITEM 3. LEGAL PROCEEDINGS.

CompuServe Corporation, certain current and former officers and directors of CompuServe and the Company have been named as defendants in six lawsuits pending before the state and Federal courts in Columbus, Ohio. All suits allege similar violations of the Securities Act of 1933 based on assertions of omissions and misstatements of fact in connection with CompuServe's public filings related to its initial public offering in April 1996. One state lawsuit alleges certain oral omissions and misstatements in connection with such offering. Relief sought in the lawsuits is unspecified, but includes pleas for rescission and damages. One Federal lawsuit names the lead underwriters of CompuServe's initial public offering as additional defendants and as representatives of a defendant class consisting of all underwriters who participating in such offering. The Federal suits have been consolidated, the defendants have filed a motion to dismiss the consolidated suits, and the court has stayed all proceedings pending the outcome of the state court suits. The four state court lawsuits also allege violations of various state statutes and common law negligent misrepresentation in addition to the 1993 Act claims. The state court lawsuits have been consolidated for discovery purposes and defendants have filed a motion for summary judgment covering all four state lawsuits. As a part of the sale of its interest in CompuServe, the Company has agreed to indemnify WorldCom and CompuServe against 80.1% of any losses and expenses incurred by them with respect to these lawsuits. The defendants are vigorously defending these lawsuits. In the opinion of management, the ultimate resolution of these suits will not have a material adverse impact on the Company's consolidated financial position or future results of operations. The lawsuits discussed herein were reported in the Company's Forms 10-Q for the first, second and third quarters of fiscal year 1998.

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

No matters were submitted to a vote of security holders, through the solicitation of proxies or otherwise, during the fourth quarter of the fiscal year ended April 30, 1998.

ITEM 4A. EXECUTIVE OFFICERS OF THE REGISTRANT.

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

Name and age	Office(s)
Henry W. Bloch (75)	Chairman of the Board since August 1992; Chairman of the Board and Chief Executive Officer from August 1989 through July 1992; Member of the Board of Directors since 1955.

Name and age	Office(s)
Frank L. Salizzoni (60)	President and Chief Executive Officer since June 1996; Member of the Board of Directors since 1988. See Note 1.
Ozzie Wenich (55)	Senior Vice President and Chief Financial Officer

	since June 1997; Treasurer from June 1997 until December 1997; President, H&R Block International, from June 1996 until May 1998; Vice President, Finance and Treasurer from October 1994 through May 1996; Vice President, Corporate Controller and Treasurer from March 1994 until October 1994; Vice President and Corporate Controller from September 1985 until March 1994.
Thomas L. Zimmerman (48)	President, H&R Block Tax Services, Inc., since June 1996; Executive Vice President, Field Operations, H&R Block Tax Services, Inc. from May 1994 through May 1996; Senior Vice President, Central Tax Services, H&R Block Tax Services, Inc., from April 1993 through April 1994.
Robert E. Dubrish (46)	President and Chief Executive Officer, Option One Mortgage Corporation, since March 1996; Executive Vice President and Chief Operating Officer, Option One Mortgage Corporation, from December 1992 until March 1996. See Note 2.
James H. Ingraham (44)	Vice President, Legal since October 1996; Secretary since June 1990; Assistant Vice President, Corporate Legal and Human Resources from December 1995 until October 1996; Assistant Vice President, Legal from May 1994 until December 1995; Assistant Vice President, Corporate Counsel and Secretary, H&R Block Tax Services, Inc., from April 1993 until May 1994.
Patrick D. Petrie (39)	Vice President and Corporate Controller since October 1996; Vice President, Service Operations and Treasurer, H&R Block Tax Services, Inc., from June 1996 until October 1996; Assistant Vice President, Treasurer and Controller, H&R Block Tax Services, Inc., from July 1993 through May 1996; Assistant Vice President and Controller, H&R Block Tax Services, Inc., from April 1993 until July 1993.

Name and age	Office(s)
Kristine K. Rodgers (32)	Vice President, Business Development, since December 1997; Vice President, Online Services, Block Financial Corporation, since September 1995; Vice President, Marketing, Block Financial Corporation, May 1995 until September 1995; Assistant Vice President, Block Financial Corporation, from January 24, 1994 until May 1995. See Note 3.
James D. Rose (47)	Vice President and Chief Information Officer since June 1997. See Note 4.
Brian N. Schell (32)	Vice President and Treasurer since December 1997; Director of Investor Relations since November 1996; Assistant Treasurer from November 1996 until December 1997; Director of Corporate Development from May 1995 until December 1997; Assistant Vice President, Corporate Development and Planning, Block Financial Corporation, from December 1994 until April 1995. See Note 5.
Douglas D. Waltman (36)	Vice President, Human Resources, since April 1998; Assistant Vice President, Director of Education, H&R Block Tax Services, Inc., from September 1996 until April 1998. See Note 6.
Robert A. Weinberger (54)	Vice President, Government Relations, since March 1996. See Note 7.
Bret G. Wilson (39)	Vice President, Corporate Development, since December 1997; Vice President, Mortgage Operations, Block Financial Corporation, since March 1997; Vice President, Corporate Counsel and Secretary, Block Financial Corporation, from June 1994 until March 1997. See Note 8.

Note 1: Mr. Salizzoni was President and Chief Operating Officer of USAir Group, Inc. and USAir, Inc. from March 1994 until April 1996 and Executive Vice President - Finance, USAir, Inc. from 1990 until March 1994. He served as Chairman of the Board of CompuServe Corporation from October 1996 until January 1998.

Note 2: Block Financial Corporation acquired Option One Mortgage Corporation on June 17, 1997, at which time Mr. Dubrish became an employee of a subsidiary of the Company.

Note 3: Ms. Rodgers served as Marketing Manager, Reynolds & Reynolds, Dayton, Ohio, from August 1993 until January 14, 1994, and as Research Supervisor, Proctor & Gamble, Cincinnati, Ohio, from June 1991 until August 1993.

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

Note 5: Mr. Schell was Special Assistant to the Chief Operating Officer, Federal Deposit Insurance Corporation, Washington, D.C., from May 1994 until December 1995, and Special Assistant to the Director, Division of Resolutions, Federal Deposit Insurance Corporation, Washington, D.C., from May 1993 until April 1994.

Note 6: Mr. Waltman was Manager, Training and Development for Westlake Ace Hardware, Inc., Kansas City, Missouri, from May 1993 until September 1996.

Note 7: Mr. Weinberger was Director, Washington Affairs, Unilever United States, Inc., from February 1991 until April 1995.

Note 8: Mr. Wilson was an attorney with Smith, Gill, Fisher & Butts, P.C., Kansas City, Missouri, from June 1989 until May 1994.

PART II

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

The information called for by this item is contained in the Company's annual report to security holders for the fiscal year ended April 30, 1998, under the heading "Common Stock Data," and is hereby incorporated by reference. The Company's Common Stock is traded principally on the New York Stock Exchange. The Company's Common Stock is also traded on the Pacific Stock Exchange. On June 10, 1998, there were 35,216 stockholders of the Company.

ITEM 6. SELECTED FINANCIAL DATA.

The information called for by this item is contained in the Company's annual report to security holders for the fiscal year ended April 30, 1998, under the heading "Selected Financial Data," and is hereby incorporated by reference.

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

The information called for by this item is contained in the Company's annual report to security holders for the fiscal year ended April 30, 1998, under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations," and is hereby incorporated by reference.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

GENERALLY

In the operations of its subsidiaries and the reporting of its consolidated financial results, the Company is affected by changes in interest rates and currency exchange rates. The principal risks of loss arising from adverse changes in market rates and prices to which the Company and its subsidiaries are exposed relate to:

- interest rates on debt, cash equivalents, marketable securities, mortgage loan origination commitments, investments in mortgage loans for resale or securitization, and credit card loans

- foreign exchange rates, generating translation gains and losses

Changes in interest rates and/or exchange rates have not, and are not expected to, materially impact the consolidated financial position, results of operations or cash flows of the Company.

The Company and its subsidiaries have no market risk sensitive instruments entered into for "trading purposes," as such term is defined by generally accepted accounting principles. Information contained herein relates only to instruments entered into for purposes other than trading.

INTEREST RATES

The debt portfolio, rate-sensitive assets and related interest rate risk are managed centrally by the office of the Chief Financial Officer of the Company by taking into consideration investment opportunities and risks, tax consequences and the financing strategies approved by the Finance Committee of the Company's Board of Directors.

The investment portfolios of the Company and its subsidiaries at April 30, 1998, primarily consisted of cash equivalents and short-term marketable securities. Consequently, the amortized cost approximates market value. Almost 19% of the Company's total cash and marketable securities portfolio is classified as long-term, with nearly all maturities within a one-to-five year range. Amortized cost of these securities also approximates market value. All investments are generally held until maturity. Assuming all cash equivalents and marketable securities held at year-end were variable rate investments, a 60 basis point change in interest (an approximate 10% decline in interest rates) would negatively impact consolidated pretax earnings by less than $4 million, or about one percent.

Under its risk management strategy, the Company hedges its interest rate risk related to its fixed-rate mortgage portfolio by selling short treasury securities and utilizing forward commitments. Treasury securities are sold short under an open repurchase agreement that can be adjusted at any time by either party. The position on certain or all of the fixed rate mortgages is closed when the Company enters into a forward commitment to sell those mortgages. It is the Company's policy to utilize these financial instruments only for the purpose of offsetting or reducing the risk of loss associated with a defined or quantified exposure. They are purchased from certain broker-dealer counterparties. If the counterparties do not fulfill their obligations, the Company may be exposed to risk. As the risk of default depends on the creditworthiness of the counterparty, the Company's policy requires that such transactions may be entered into only with counterparties that are rated A or better (or an equivalent rating) by recognized rating agencies. As a matter of practice, the Company has limited the counterparties to major banks and financial institutions meeting such standards. All interest rate contracts conform to the standard International Swaps and Derivatives Association, Inc. documentation.

The Company's variable rate mortgage portfolios are generally short-term in nature, as it is the Company's policy to sell or securitize these loans quarterly, and such portfolios are carried at the lower of cost or market. Credit card loans are also short-term in nature and carry variable interest rates. Because the Company funds these short-term assets with short-term, variable rate debt, the Company is

not significantly exposed to interest rate risk in this area. As a result, any change in interest rates would not materially impact the Company's consolidated pretax earnings.

The Company's long-term debt consists of fixed-rate senior notes; therefore, a change in interest rates would have no impact on consolidated pretax earnings.

FOREIGN EXCHANGE RATES

The operation of the Company's subsidiaries in international markets provides exposure to volatile movements in currency exchange rates. The currencies involved are the Canadian dollar, the Australian dollar and the British pound. International Tax Operations constituted approximately 4% of the Company's fiscal year 1998 consolidated pretax earnings. As currency exchange rates change, translation of the financial results of International Tax Operations into U.S. dollars does not presently materially affect, and has not historically materially affected, the consolidated financial results of the Company, although such changes do affect the year-to-year comparability of the operating results of the international businesses.

The Company does not hedge translation risks because (1) cash flows from international operations are generally reinvested locally and (2) the minimal exposure to material volatility to reported earnings does not justify the cost.

The Company estimates that a 10% change in foreign exchange rates by itself would impact reported pretax earnings from continuing operations by approximately one million dollars. Such impact represents nearly 10% of the pretax earnings of International Tax Operations for fiscal year 1998 and less than one-half percent of the Company's consolidated pretax earnings for such year.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

The information called for by this item and listed at Item 14(a)1 is contained in the Company's annual report to security holders for the fiscal year ended April 30, 1998, and is hereby incorporated by reference.

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

On July 20, 1998, H&R Block, Inc. (the "Company") dismissed the accounting firm of Deloitte & Touche LLP as its independent auditors. Deloitte & Touche LLP and its predecessors audited the accounts of the Company from 1965 through fiscal year 1998. The reports prepared by Deloitte & Touche LLP on the Company's financial statements for either of the last two fiscal years did not contain any adverse opinion or disclaimer of opinion, nor were they qualified or modified as to uncertainty, audit scope or accounting principles. The decision to change the Company's independent auditors was made by the Board of Directors of the Company at the recommendation of its Audit Committee following a request for proposals. During the Company's two most recent fiscal years, and any subsequent interim period prior to July 20, 1998, there were no disagreements with Deloitte & Touche LLP on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure which disagreements, if not resolved to the satisfaction of Deloitte & Touche LLP, would have caused it to make reference to the subject matter of the disagreements in its reports. Also, there were no reportable events of the nature described in Regulation S-K, Item 304(a)(1)(v) during either of the Company's two most recent fiscal years and any subsequent interim period prior to July 20, 1998.

On July 20, 1998, the Board of Directors of the Company appointed PricewaterhouseCoopers LLP as the Company's independent auditors for the year ending April 30, 1999, following a request for proposals made by the Company to five accounting firms at the direction of the Audit Committee of the Board. The Board of Directors directed the Company's management to submit the ratification of such appointment to a vote of the shareholders of the Company at the annual meeting of shareholders scheduled for September 9, 1998. During the two most recent fiscal years, and any subsequent interim period prior to such appointment, neither the Company, nor anyone acting on behalf of the Company, consulted PricewaterhouseCoopers LLP regarding: (i) the application of accounting principles to a specific transaction, either completed or proposed, or the type of audit opinion that might be rendered on the registrant's financial statements, or (ii) any matter that was either the subject of a disagreement or a reportable event.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

The information called for by this item is contained in the Company's definitive proxy statement filed pursuant to Regulation 14A not later than 120 days after April 30, 1998, in the section titled "Election of Directors" and in Item 4a of Part I of this report, and is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION.

The information called for by this item is contained in the Company's definitive proxy statement filed pursuant to Regulation 14A not later than 120 days after April 30, 1998, in the sections entitled "Directors' Meetings, Compensation and Committees" and "Compensation of Executive Officers," and is incorporated herein by reference, except that information contained in the section entitled "Compensation of Executive Officers" under the subtitles "Performance Graph" and "Compensation Committee Report on Executive Compensation" is not incorporated herein by reference and is not to be deemed "filed" as part of this filing.

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

The information called for by this item is contained in the Company's definitive proxy statement filed pursuant to Regulation 14A not later than 120 days after April 30, 1998, in the section titled "Election of Directors" and in the section titled "Information Regarding Security Holders," and is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

The information called for by this item is contained in the Company's definitive proxy statement filed pursuant to Regulation 14A not later than 120 days after April 30, 1998, in the section titled "Election of Directors," and is incorporated herein by reference.

PART IV

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

(a) 1. Financial Statements

The following consolidated financial statements of H&R Block, Inc., and subsidiaries are incorporated by reference from the Company's annual report to security holders for the fiscal year ended April 30, 1998:

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2. Financial Statement Schedules

Independent Auditors' Report

Schedule VIII - Valuation and Qualifying Accounts

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

3. Exhibits

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

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

4(a) Indenture dated as of October 20, 1997, among H&R Block, Inc., Block Financial Corporation and Bankers Trust Company, as Trustee, filed as Exhibit 4(a) to the Company's quarterly report on Form 10-Q for the quarter ended October 31, 1997, is incorporated herein by reference.

4(b) Form of 6 3/4% Senior Note due 2004 of Block Financial Corporation, filed on October 23, 1997 as Exhibit 2.2 to the Company's current report on Form 8-K, is incorporated herein by reference.

4(c) Conformed copy of Rights Agreement dated as of July 14, 1988 between H&R Block, Inc., and Centerre Trust Company of St. Louis, filed on August 9, 1993

as Exhibit 4(c) to the Company's Registration Statement on Form S-8 (File No. 33-67170), is incorporated herein by reference.

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

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

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

4(g) Copy of Fourth Amendment to Rights Agreement dated March 25, 1998 between H&R Block, Inc. and ChaseMellon Shareholder Services, L.L.C., filed on May 1, 1998 as Exhibit 5 to Form 8-A/A, is incorporated herein by reference.

4(h) Copy of Rights Agreement dated March 25, 1998 between H&R Block, Inc. and ChaseMellon Shareholder Services, L.L.C., filed on July 22, 1998 as Exhibit 1 to the Company's Registration Statement on Form 8-A, is incorporated herein by reference.

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

4(j) Form of Certificate of Amendment of Certificate of Designation, Preferences and Rights of Participating Preferred Stock of H&R Block, Inc.

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

10(a) Agreement and Plan of Merger, dated as of September 7, 1997, by and among H&R Block, Inc., H&R Block Group, Inc., CompuServe Corporation, WorldCom, Inc., and Walnut Acquisition Company, L.L.C., filed on September 7, 1997 as Exhibit 2.1 to the Company's current report on Form 8-K, is incorporated herein by reference.

10(b) Stockholders Agreement, dated as of September 7, 1997, by and among H&R Block, Inc., H&R Block Group, Inc. and WorldCom, Inc., filed on September 7, 1997 as Exhibit 10.1 to the Company's current report on Form 8-K, is incorporated herein by reference.

10(c) Standstill Agreement, dated as of September 7, 1997, by and among H&R Block, Inc., H&R Block Group, Inc. and WorldCom, Inc., filed on September 7, 1997 as Exhibit 10.2 to the Company's current report on Form 8-K, is incorporated herein by reference.

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

10(e) The Company's 1993 Long-Term Executive Compensation Plan, as amended, filed as Exhibit 10(d) to the Company's quarterly report on Form 10-Q for the quarter ended October 31, 1997, is incorporated herein by reference.

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

10(g) The H&R Block Deferred Compensation Plan for Directors, as amended, filed as Exhibit 10 to the Company's quarterly report on Form 10-Q for the quarter ended July 31, 1994, is incorporated herein by reference.

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

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

10(j) Amendment No. 4 to H&R Block Deferred Compensation Plan for Directors, filed as Exhibit 10(d) to the Company's quarterly report on Form 10-Q for the quarter ended July 31, 1997, is incorporated herein by reference.

10(k) Amendment No. 5 to H&R Block Deferred Compensation Plan for Directors, filed as Exhibit 10(c) to the Company's quarterly report on Form 10-Q for the quarter ended January 31, 1998, is incorporated herein by reference.

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

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

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

10(o) Amendment No. 8 to H&R Block Deferred Compensation Plan for Executives, filed as Exhibit 10(b) to the Company's quarterly report on Form 10-Q for the quarter ended July 31, 1997, is incorporated herein by reference.

10(p) Amendment No. 9 to H&R Block Deferred Compensation Plan for Executives, filed as Exhibit 10(f) to the Company's quarterly report on Form 10-Q for the quarter ended October 31, 1997, is incorporated herein by reference.

10(q) Amendment No. 10 to H&R Block Deferred Compensation Plan for Executives, filed as Exhibit 10(a) to the Company's quarterly report on Form 10-Q for the quarter ended January 31, 1998, is incorporated herein by reference.

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

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

10(t) Amendment No. 2 to H&R Block Supplemental Deferred Compensation Plan for Executives, filed as Exhibit 10(c) to the Company's quarterly report on Form 10-Q for the quarter ended July 31, 1995, is incorporated herein by reference.

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

10(v) Amendment No. 4 to H&R Block Supplemental Deferred Compensation Plan for Executives, filed as Exhibit 10(e) to the Company's quarterly report on Form 10-Q for the quarter ended July 31, 1997, is incorporated herein by reference.

10(w) Amendment No. 5 to H&R Block Supplemental Deferred

Compensation Plan for Executives, filed as Exhibit 10(g) to the Company's quarterly report on Form 10-Q for the quarter ended October 31, 1997, is incorporated herein by reference.

10(x) Amendment No. 6 to H&R Block Supplemental Deferred Compensation Plan for Executives, filed as Exhibit 10(b) to the Company's quarterly report on Form 10-Q for the quarter ended January 31, 1998, is incorporated herein by reference.

10(y) The H&R Block Short-Term Incentive Plan, filed as Exhibit 10(a) to the Company's quarterly report on Form 10-Q for the quarter ended October 31, 1996, is incorporated herein by reference.

10(z) The Amendment and Termination of the H&R Block, Inc. Retirement Plan for Non-Employee Directors, filed as Exhibit 10(a) to the Company's quarterly report on Form 10-Q for the quarter ended July 31, 1997, is incorporated herein by reference.

10(aa) The Company's 1989 Stock Option Plan for Outside Directors, as amended, filed as Exhibit 10(o) to the Company's annual report on Form 10-K for the fiscal year ended April 30, 1997, is incorporated herein by reference.

10(bb) The H&R Block Stock Plan for Non-Employee Directors, filed as Exhibit 10(e) to the Company's quarterly report on Form 10-Q for the quarter ended October 31, 1997, is incorporated herein by reference.

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

13 That portion of the annual report to security holders for the fiscal year ended April 30, 1998 which is expressly incorporated by reference in this filing. Portions of such annual report to security holders not expressly incorporated by this reference in this filing are not deemed "filed" with the Commission.

16 Letter regarding change in Certifying Accountants dated July 27, 1998 from Deloitte & Touche LLP addressed to the Securities and Exchange Commission, filed on July 27, 1998 as Exhibit 16.1 to the Company's current report on Form 8-K, is incorporated herein by reference. The Statements contained in Item 4 of the Company's Form 8-K dated July 27, 1998 to which Deloitte & Touche LLP concurred in such letter are also contained in Item 9 of the Company's annual report on Form 10-K for the fiscal year ended April 30, 1998.

21 Subsidiaries of the Company.

23 The consent of Deloitte & Touche LLP, Certified Public Accountants.

27 Financial Data Schedule.

(b) Reports on Form 8-K.

The registrant did not file any reports on Form 8-K during the fourth quarter of the year ended April 30, 1998.

SIGNATURES

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

H&R BLOCK, INC.

June 17, 1998

By /s/ Frank L. Salizzoni

Frank L. Salizzoni, President and Chief Executive Officer

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

Signature	Title
/s/ Frank L. Salizzoni - ------------------------------ Frank L. Salizzoni	President, Chief Executive Officer and Director (principal executive officer)
/s/ G. Kenneth Baum - ------------------------------ G. Kenneth Baum	Director
/s/ Henry W. Bloch - ------------------------------ Henry W. Bloch	Director
/s/ Robert E. Davis - ------------------------------ Robert E. Davis	Director
/s/ Donna R. Ecton - ------------------------------ Donna R. Ecton	Director
/s/ Henry F. Frigon - ------------------------------ Henry F. Frigon	Director
/s/ Roger W. Hale - ------------------------------ Roger W. Hale	Director
/s/ Marvin L. Rich - ------------------------------ Marvin L. Rich	Director
/s/ Morton I. Sosland - ------------------------------ Morton I. Sosland	Director
/s/ Ozzie Wenich - ------------------------------ Ozzie Wenich	Senior Vice President and Chief Financial Officer (principal financial officer)
/s/ Patrick D. Petrie - ------------------------------ Patrick D. Petrie	Vice President and Corporate Controller

(Signed as to each on June 17, 1998)

INDEPENDENT AUDITORS' REPORT

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

We have audited the consolidated financial statements of H&R Block, Inc. and subsidiaries as of April 30, 1998 and 1997, and the related consolidated statements of earnings and cash flows for each of the three years in the period ended April 30, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of H&R Block, Inc., and subsidiaries as of April 30, 1998 and 1997, and the results of their operations and their cash flows for each of the three years in the period ended April 30, 1998, in conformity with generally accepted accounting principles.

/s/ Deloitte & Touche LLP

Kansas City, Missouri
June 16, 1998

H&R BLOCK, INC.
AND SUBSIDIARIES

SCHEDULE VIII - VALUATION AND QUALIFYING ACCOUNTS

YEARS ENDED APRIL 30, 1998, 1997 AND 1996

		Additions			
Description	Balance Beginning of Period	Charged to Costs and Expenses	Charged to Other	Deductions	Balance at End of Period
Allowance for Doubtful Accounts-deducted from accounts receivable in the balance sheet					
1998	$30,144,000	$75,171,000	$ -	$60,001,000	$45,314,000
1997	$ 4,419,000	$65,865,000	$ -	$40,140,000	$30,144,000
1996	$ 7,274,000	$31,766,000	$ -	$31,192,000	$ 7,848,000

EXHIBIT 4 (J)

CERTIFICATE OF AMENDMENT OF CERTIFICATE OF DESIGNATION,

PREFERENCES AND RIGHTS OF PARTICIPATING PREFERRED STOCK

OF

H&R BLOCK, INC.

I, Ozzie Wenich, the Senior Vice President and Chief Financial Officer of H&R Block, Inc. (the "Company"), a corporation organized and existing under The General and Business Corporation Law of the State of Missouri, in accordance with the provisions of Section 351.180.7 thereof, DO HEREBY CERTIFY:

That pursuant to the authority conferred upon the Board of Directors by the Company's Articles of Incorporation, as amended, the Board of Directors on July 14, 1988 adopted a resolution creating a series of shares of voting Preferred Stock designated as Participating Preferred Stock, pursuant to a Certificate of Designation, Preferences and Rights of Participating Preferred Stock filed with the Missouri Secretary of State, with such Participating Preferred Stock having the powers, preferences and relative, participating, optional and other special rights with the qualifications, limitations or restrictions set forth below.

That pursuant to the authority conferred upon the Board of Directors by the Company's Articles of Incorporation, as amended, the Board of Directors on July 20, 1998, adopted the following resolution amending the Company's Certificate of Designation, Preferences and Rights of Participating Preferred Stock to increase the number of shares designated Participating Preferred Stock:

RESOLVED, that it is desirable and in the best interests of the Company that the number of shares designated Participating Preferred Stock be increased from 600,000 to 1,200,000.

The powers, preferences and relative, participating, optional and other special rights of the shares of such series, and the qualifications, limitations or restrictions thereof are as set forth below:

Section 1. Designation and Amount. There shall be a series of the voting preferred stock of the Company which shall be designated as "Participating Preferred Stock," without par value, and the number of shares constituting such series shall be 1,200,000. Such number of shares may be increased or decreased by resolution of the Board of Directors; provided, that no decrease shall reduce the number of shares of Participating Preferred Stock to a number less than that of the shares then outstanding plus the number of shares issuable upon

exercise of outstanding rights, options or warrants or upon conversion of outstanding securities issued by the Company.

Section 2. Dividends and Distributions.

(a) Subject to the rights of the holders of any shares of any series of preferred stock of the Company ranking prior and superior to the Participating Preferred Stock with respect to dividends, the holders of shares of Participating Preferred Stock, in preference to the holders of shares of Common Stock, without par value (the "Common Stock"), of the Company and of any other junior stock, shall be entitled to receive, when, as and if declared by the Board of Directors out of funds legally available for the purpose, quarterly dividends payable in cash on the first day of January, April, July and October in each year (each such date being referred to herein as a

"Quarterly Dividend Payment Date"), commencing on the first Quarterly Dividend Payment Date after the first issuance of a share or fraction of a share of Participating Preferred Stock, in an amount per share (rounded to the nearest cent) equal to the greater of (a) $1.00 or (b) subject to the provision for adjustment hereinafter set forth, 100 times the aggregate per share amount of all cash dividends and 100 times the aggregate per share amount (payable in kind) of all non-cash dividends or other distributions, other than a dividend payable in shares of Common Stock or a subdivision of the outstanding shares of Common Stock (by reclassification or otherwise), declared on the Common Stock since the immediately preceding Quarterly Dividend Payment Date or, with respect to the first Quarterly Dividend Payment Date, since the first issuance of any share or fraction of a share of Participating Preferred Stock. In the event the Company shall at any time after July 25, 1998 (the "Rights Declaration Date") declare or pay any dividend on the Common Stock payable in shares of Common Stock, or effect a subdivision or combination or consolidation of the outstanding shares of Common Stock (by reclassification or otherwise than by payment of a dividend in shares of Common Stock) into a greater or lesser number of shares of Common Stock, then in each such case the amount to which holders of shares of Participating Preferred Stock were entitled immediately prior to such event under clause (b) of the preceding sentence shall be adjusted by multiplying such amount by a fraction, the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

(b) The Company shall declare a dividend or distribution on the Participating Preferred Stock as provided in paragraph (a) of this Section immediately after it declares a dividend or distribution on the Common Stock (other than a dividend payable in shares of Common Stock); provided that, in the event no dividend or distribution shall have been declared on the Common Stock during the period between any Quarterly Dividend Payment Date and the next subsequent Quarterly Dividend Payment Date, a dividend of $1.00 per share on the Participating Preferred Stock shall nevertheless be payable on such subsequent Quarterly Dividend Payment Date.

(c) Dividends shall begin to accrue and be cumulative on outstanding shares of Participating Preferred Stock from the Quarterly Dividend Payment Date next preceding the date of issue of such shares, unless the date of issue of such shares is prior to the record date for

the first Quarterly Dividend Payment Date, in which case dividends on such shares shall begin to accrue from the date of issue of such shares, or unless the date of issue is a Quarterly Dividend Payment Date or is a date after the record date for the determination of holders of shares of Participating Preferred Stock entitled to receive a quarterly dividend and before such Quarterly Dividend Payment Date, in either of which events such dividends shall begin to accrue and be cumulative from such Quarterly Dividend Payment Date. Accrued but unpaid dividends shall not bear interest. Dividends paid on the shares of Participating Preferred Stock in an amount less than the total amount of such dividends at the time accrued and payable on such shares shall be allocated pro rata on a share-by-share basis among all such shares at the time outstanding. The Board of Directors may fix a record date for the determination of holders of shares of Participating Preferred Stock entitled to receive payment of a dividend or distribution declared thereon, which record date shall be not more than sixty days prior to the date fixed for the payment thereof.

Section 3. Voting Rights. The holders of shares of Participating Preferred Stock shall have the following voting rights:

(a) Each share of Participating Preferred Stock shall entitle the holder thereof to 100 votes on all matters submitted to a vote of the stockholders of the Company.

(b) Except as otherwise provided herein, in the Company's Articles of Incorporation or by law, the holders of shares of Participating Preferred Stock, the holders of shares of Common Stock, and the holders of shares of any other capital stock of the Company having general voting rights, shall vote together as one class on all matters submitted to a vote of stockholders of the Company.

(c) Except as otherwise set forth herein or in the Company's Articles of Incorporation, and except as otherwise provided by law, holders of Participating Preferred Stock shall have no special voting rights and their consent shall not be required (except to the extent they are entitled to vote with holders of Common Stock as set forth herein) for taking any corporate action.

Section 4. Certain Restrictions.

(a) Whenever quarterly dividends or other dividends or distributions payable on the Participating Preferred Stock as provided in Section 2 are in arrears, thereafter and until all accrued and unpaid dividends and distributions, whether or not declared, on shares of Participating Preferred Stock outstanding shall have been paid in full, the Company shall not:

(i) declare or pay dividends on, make any other distributions on, or redeem or purchase or otherwise acquire for consideration any shares of stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Participating Preferred Stock;

(ii) declare or pay dividends on or make any other distributions on any shares of stock ranking on a parity (either as to dividends or upon liquidation, dissolution

or winding up) with the Participating Preferred Stock, except dividends paid ratably on the Participating Preferred Stock and all such parity stock on which dividends are payable or in arrears in proportion to the total amounts to which the holders of all such shares are then entitled;

(iii) except as permitted in Section 4(a)(iv) below, redeem or purchase or otherwise acquire for consideration shares of any stock ranking on a parity (either as to dividends or upon liquidation, dissolution or winding up) with the Participating Preferred Stock, provided that the Company may at any time redeem, purchase or otherwise acquire shares of any such parity stock in exchange for share of any stock of the Company ranking junior (either as to dividends or upon dissolution, liquidation or winding up) to the Participating Preferred stock; or

(iv) purchase or otherwise acquire for consideration any shares of Participating Preferred Stock, or any shares of stock ranking on a parity with the Participating Preferred Stock, except in accordance with a purchase offer made in writing or by publication (as determined by the Board of Directors) to all holders of such shares upon such terms as the Board of Directors, after consideration of the respective annual dividend rates and other relative rights and preferences of the respective series and classes, shall determine in good faith will result in fair and equitable treatment among the respective series or classes.

(b) The Company shall not permit any subsidiary of the Company to purchase or otherwise acquire for consideration any shares of stock of the Company unless the Company could, under paragraph (a) of this Section 4, purchase or otherwise acquire such shares at such time and in such manner.

Section 5. Reacquired Shares. Any shares of Participating Preferred Stock purchased or otherwise acquired by the Company in any manner whatsoever shall be retired and canceled promptly after the acquisition thereof. The Company shall cause all such shares upon their cancellation to be authorized but unissued shares of Preferred Stock which may be reissued as part of a new series of Preferred Stock to be created by resolution or resolutions of the Board of Directors, subject to the conditions and restrictions on issuance set forth herein.

Section 6. Liquidation, Dissolution or Winding Up.

(a) Upon any liquidation (voluntary or otherwise), dissolution or winding up of the Company, no distribution shall be made to the holders of shares of stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Participating Preferred Stock unless, prior thereto, the holders of shares of Participating Preferred Stock shall have received per share, the greater of $100.00 or 100 times the payment made per share of Common Stock, plus an amount equal to accrued and unpaid dividends and distributions thereon, whether or not declared, to the date of such payment (the "Liquidation Preference"). Following the payment of the full amount of the Liquidation Preference, no additional distributions shall be made to the holders of shares of Participating Preferred Stock, unless, prior thereto, the holders

of shares of Common Stock shall have received an amount per share (the "Common Adjustment") equal to the quotient obtained by dividing (i) the Liquidation Preference by (ii) 100 (as appropriately adjusted a set forth in subparagraph (c) below to reflect such events as stock dividends, and subdivisions, combinations and consolidations with respect to the Common Stock) (such number in clause (ii) being referred to as the "Adjustment Number"). Following the payment of the full amount of the Liquidation Preference and the Common Adjustment in respect of all outstanding shares of Participating Preferred Stock and Common Stock, respectively, holders of Participating Preferred Stock and holders of shares of Common Stock shall receive their ratable and proportionate share of the remaining assets to be distributed in the ratio of the Adjustment Number to 1 with respect to such Participating Preferred Stock and Common Stock, on a per share basis, respectively.

(b) In the event there are not sufficient assets available to permit payment in full of the Liquidation Preference and the liquidation preferences of all other series of preferred stock, if any, which rank on a parity with the Participating Preferred Stock, then such remaining assets shall be distributed ratably to the holders of such parity shares in proportion to their respective liquidation preferences. In the event there are not sufficient assets available to permit payment in full of the Common Adjustment, then such remaining assets shall be distributed ratably to the holders of Common Stock.

(c) In the event the Company shall at any time after the Rights Declaration Date declare or pay any dividend on Common Stock payable in shares of Common Stock, or effect a subdivision or combination or consolidation of the outstanding shares of Common Stock (by reclassification or otherwise then by payment of a dividend in shares of Common Stock) into a greater or lesser number of shares of Common Stock, then in each such case the Adjustment Number in effect immediately prior to such event shall be adjusted by multiplying such Adjustment Number by a fraction, the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that are outstanding immediately prior to such event.

Section 7. Consolidation, Merger, Etc. In case the Company shall enter into any consolidation, merger, combination or other transaction in which the shares of Common Stock are exchanged for or changed into other stock or securities, cash and/or any other property, then in any such case the shares of Participating Preferred Stock shall at the same time be similarly exchanged or changed in an amount per share (subject to the provision for adjustment hereinafter set forth) equal to 100 times the aggregate amount of stock, securities, cash and/or any other property (payable in kind), as the case may be, into which or for which each share of Common Stock is exchanged or changed. In the event the Company shall at any time after the Rights Declaration Date declare or pay any dividend on Common Stock payable in shares of Common Stock, or effect a subdivision or combination or consolidation of the outstanding shares of Common Stock (by reclassification or otherwise than by payment of a dividend in shares of Common Stock) into a greater or lesser number of shares of Common Stock, then in each such case the amount set forth in the preceding sentence with respect to the exchange or change of shares of Participating Preferred Stock shall be adjusted by multiplying such amount by a fraction, the numerator of which is the number of shares of Common Stock outstanding

immediately after such event and the denominator of which is the number of shares of Common Stock that are outstanding immediately prior to such event.

Section 8. Redemption. The shares of Participating Preferred Stock shall not be redeemable.

Section 9. Ranking. The Participating Preferred Stock shall rank junior to all other series of the Company's Preferred Stock as to the payment of dividends and the distribution of assets, unless the terms of any such series shall provide otherwise.

Section 10. Amendment. The Articles of Incorporation of the Company shall not be further amended in any manner which would materially alter or change the powers, preferences or special rights of the Participating Preferred Stock so as to affect them adversely without the affirmative vote of the holders of a majority or more of the outstanding shares of Participating Preferred Stock voting separately as a class.

Section 11. Fractional Shares. Participating Preferred Stock may be issued in fractions of a share which shall entitle the holder, in proportion to such holder's fractional shares, to exercise voting rights, receive dividends, participate in distributions and to have the benefit of all other rights of holders of Participating Preferred Stock.

IN WITNESS WHEREOF, this Certificate of Amendment of the Certificate of Designation has been executed by the Company by its Senior Vice President and attested by its Secretary on this 17th day of July, 1998.

H&R BLOCK, INC.

By: /s/ Ozzie Wenich

Ozzie Wenich, Senior Vice President
and Chief Financial Officer

ATTEST:

/s/ James H. Ingraham
- --
James H. Ingraham, Vice President, Legal
and Secretary

STATE OF Missouri)
)SS.
COUNTY OF Jackson)

BE IT REMEMBERED, that on this 17th day of July, 1998, before me, the undersigned, a Notary Public in and for said County and State, personally appeared Ozzie Wenich and James H. Ingraham, who declared that they are the Senior Vice President and Secretary, respectively, of the corporation named in the foregoing certificate, and acknowledged that they executed the foregoing certificate on behalf of the corporation.

/s/ Barbara Phillips

Notary Public

My Commission Expires:

February 7, 2007
- ----------------

EXHIBIT 13

MANAGEMENT DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

SIGNIFICANT EVENTS IN FISCAL 1998

On January 31, 1998, the Company completed the sale of its interest in CompuServe Corporation ("CompuServe") to a subsidiary of WorldCom, Inc. ("WorldCom"). The sale was structured as a stock-for-stock transaction in which the Company received 30.1 million shares of WorldCom stock in exchange for its 80.1% ownership interest (74.2 million shares) in CompuServe stock. The transaction was completed with the receipt of $1.033 billion in net proceeds from the monetization of the WorldCom stock in a block trade on February 2, 1998. The Company recorded a $231.9 million gain, net of taxes, on the transaction. CompuServe's results have been reflected as discontinued operations. CompuServe's operations contributed $(.13), $(.92) and $.50 per basic share, and $(.13), $(.91) and $.49 per diluted share, in 1998, 1997 and 1996, respectively.

On June 17, 1997, the Company completed the purchase of Option One Mortgage Corporation ("Option One"). Option One engages in the origination, purchase, servicing, securitization and sale of nonconforming mortgage loans. Based in Santa Ana, California, Option One has a network of more than 5,000 mortgage brokers in 46 states. The cash purchase price was $218.1 million. In addition, the Company made a cash payment of $456.2 million to Option One's parent to eliminate intercompany loans made to Option One to finance its mortgage operations. The $456.2 million payment was recorded as an intercompany loan and was repaid to the Company by the end of June 1997 after Option One sold the mortgage loans to a third party in the ordinary course of business. The acquisition was accounted for as a purchase and, accordingly, Option One's results are included since the date of acquisition.

SIGNIFICANT EVENTS IN FISCAL 1997

The Company's wholly owned subsidiary, Block Financial Corporation ("BFC"), is a party to a 10-year agreement with Beneficial National Bank which enables it to purchase a participation interest in Refund Anticipation Loans ("RALs") made to clients in H&R Block tax offices. RALs are loans expected to be retired by income tax refunds. During 1998 and 1997, BFC held a participation interest of 40% in RALs made, which generated revenues of $53.3 million and $54.5 million, respectively, and operating earnings of $6.4 million and $8.1 million, respectively. Over the term of the agreement, BFC may increase its participation in the RAL program to nearly 50%.

NEW ACCOUNTING STANDARDS

The Company has adopted Statement of Financial Accounting Standards No. 128, "Earnings Per Share" ("SFAS 128"), issued by the Financial Accounting Standards Board ("FASB") in February 1997, which is effective for periods ending after December 15, 1997. SFAS 128, which simplifies the standards for computing and presenting earnings per share, replaces the previously reported primary and fully diluted earnings per share with basic and diluted earnings per share. Unlike primary earnings per share, basic earnings per share excludes any dilutive effects of options, warrants and convertible securities. Diluted earnings per share is very similar to the previously reported primary earnings per share. Accordingly, net earnings per share have been restated to conform to the new standard.

In the third quarter of fiscal 1998, the Company elected the early adoption of Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information" ("SFAS 131"). SFAS 131 requires that a company report financial and descriptive information about its reportable operating segments, defined as those components of an enterprise about which separate financial information is available and is evaluated regularly by management in deciding how to allocate resources and in assessing performance. Management analyzes its business according to differences in types of services and geographic locations, and the reportable operating segments have been determined accordingly.

In June 1997, the FASB issued Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income" ("SFAS 130"), effective for the Company's fiscal year ending April 30, 1999. SFAS 130 establishes standards for reporting and display of comprehensive income and its components (revenues, expenses, gains and losses) in a full set of general-purpose financial statements. SFAS 130 requires that all items that are required to be recognized under accounting standards as components of comprehensive income be reported in a financial statement that is displayed with the same prominence as other financial statements. SFAS 130 requires that the Company (a) classify items of other comprehensive income by their nature in a financial statement and (b) display the accumulated balance of other comprehensive income separately from retained earnings and additional paid-in capital in the equity section of a statement of financial position. The Company does not anticipate that the implementation of SFAS 130 will have a material impact on the consolidated financial statements.

In June 1998, the FASB issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"), effective for the Company's fiscal year ending April 30, 2001. SFAS 133 requires companies to record derivative instruments as assets or liabilities, measured at fair value. The recognition of gains or losses resulting from changes in the values of those derivative instruments is based on the use of each derivative instrument and whether it qualifies for hedge accounting. The key criterion for hedge accounting is that the hedging relationship must be highly effective in achieving offsetting changes in fair value or cash flows. The Company has not yet determined the effect of SFAS 133 on the consolidated financial statements.

1998 COMPARED TO 1997

CONSOLIDATED RESULTS

Revenues increased 19.1% to $1.307 billion compared to $1.097 billion in 1997. Net earnings from continuing operations increased 21.1% to $174.2 million from $143.8 million in the prior year. Basic net earnings per share from continuing operations increased to $1.66 from $1.38 last year. Diluted net earnings per share from continuing operations increased to $1.62 compared to $1.36 in 1997.

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

U.S. TAX OPERATIONS

This segment is primarily engaged in providing tax return preparation, filing and related services to the general public in the United States. Tax-related service revenue includes fees from company-owned tax offices and royalties from franchised offices. This segment also purchases participation interests in refund anticipation loans made by a third party lending institution which are offered to tax clients, and provides tax preparation and other personal productivity software to the general public.

Revenues increased 8.4% to $1.047 billion from $966.5 million in the prior year. Combined tax preparation and electronic filing fees increased $71.2 million, or 9.1%, entirely attributable to price increases. Clients served, which includes taxpayers for whom the Company prepared income tax returns, as well as taxpayers for whom only electronic filing services are provided, was relatively consistent with the prior year. Royalties increased by $4.0 million, or 4.0%, reflecting improved results in the number of clients served by franchises as well as increases in pricing. Software revenues increased $5.2 million, or 36.6%, as a result of increased market penetration.

Operating earnings increased 20.4% to $253.3 million from $210.4 million in 1997. The pretax margin was 24.2% compared to 21.8% in the prior year. The improved margin resulted from cost-control measures implemented throughout the tax operations business, primarily related to marketing and advertising expense and employee compensation, in addition to lower bad debt expense in 1998 associated with electronic filing.

INTERNATIONAL TAX OPERATIONS

This segment is primarily engaged in providing tax return preparation, filing and related services to the general public in Canada, Australia and the United Kingdom. Tax-related service revenue includes fees from company-owned tax offices and royalties from franchised offices.

Revenues decreased 6.6% to $81.8 million from $87.5 million in 1997. The deterioration of the Canadian and Australian dollars relative to the U.S. dollar contributed significantly to the decline in both revenues and operating earnings, accounting for 61% of the total revenue decrease. Tax preparation fees declined $2.2 million, or 4.2%, as a result of a 12.4% decrease in returns prepared by company-owned offices, partly offset by price increases. Discounted return fees in Canada also declined 11.8% due to a continued decline in available provincial tax credits.

Operating earnings decreased 15.9% to $11.9 million from $14.2 million in 1997, and the pretax margin decreased to 14.6% from 16.2% in the prior year. The decrease is partly due to the revenue decline, as well as a loss of $1.6 million from the start-up of operations in the United Kingdom and the opening of 32 new company-owned offices in Australia.

MORTGAGE OPERATIONS

This segment is primarily engaged in the origination, purchase, servicing, securitization and sale of nonconforming mortgage loans in the United States. Mortgage origination services are offered through a network of mortgage brokers in 46 states and through H&R Block tax offices in 15 states.

Revenues of $135.8 million were $126.9 million better than the prior year. The increase is largely due to the acquisition of Option One in June 1997, which contributed revenues of $117.4 million this year. Since its acquisition, Option One has originated $1.853 billion of loans and sold $1.785 billion of mortgage loans through whole-loan sales. At April 30, 1998, Option One's servicing portfolio was 42,800 loans totaling $4.315 billion.

Operating earnings increased $29.9 million to $30.8 million. Option One contributed operating earnings of $34.3 million, including goodwill amortization of $10.8 million, which was reduced by the start-up costs associated with the retail mortgage business offered through the Company's tax offices.

CREDIT CARD OPERATIONS

This segment operates in the United States and sponsors credit card loans under a co-branded agreement and, through an Internet site and an online service provider, allows cardholders access to account transactions and payment detail through an online lookup feature.

Revenues increased 18.7% to $37.4 million from $31.5 million in 1997. This increase is primarily attributable to an increase in the average credit card receivables balance which totaled $227.8 million for 1998, compared to $200.6 million for 1997.

The pretax loss increased 121.2% to $15.5 million from $7.0 million in 1997. The increased loss is the result of several factors, including the write-off of deferred subscriber acquisition costs ($2.2 million), and capitalized software costs ($1.6 million) related to software which was being developed to provide a variety of online services to cardholders and other similar customers. Also, the quality of the credit card portfolio deteriorated, resulting in an increase in bad debts as a percentage of purchase volume from 3.35% in 1997 to 4.70% in 1998.

INVESTMENT INCOME, NET

Net investment income increased 135.5% to $25.6 million from $10.9 million in 1997, primarily as a result of the proceeds from the monetization of WorldCom stock of $1.033 billion received at the beginning of February 1998.

UNALLOCATED CORPORATE AND ADMINISTRATIVE

The unallocated corporate and administrative pretax loss increased $7.3 million to $11.4 million, largely due to increased charitable contributions, increased wages and employee benefits, and the start-up costs related to a pilot program of additional financial services to be offered through the Company's tax offices. Additionally, the Company favorably adjusted its liability for certain insurance contingencies in 1997 based on actuarial valuations. Unallocated interest expense of $13.7 million in 1998 represents the interest on debt associated with the acquisition of Option One.

INCOME TAX EXPENSE

The effective tax rate was 38.0% for fiscal 1998, compared to 36.1% for 1997, caused by an increase in state and local income taxes.

1997 COMPARED TO 1996

CONSOLIDATED RESULTS

Revenues increased 25.9% to $1.097 billion compared to $871.5 million in 1996. Net earnings from continuing operations increased 14.9% to $143.8 million from $125.1 million in the prior year. Basic net earnings per share from continuing operations increased to $1.38 from $1.20 last year. Diluted net earnings per share from continuing operations increased to $1.36 from $1.18 last year.

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

U.S. TAX OPERATIONS

Revenues increased 27.3% to $966.5 million from $759.4 million in the prior year. Tax preparation fees increased $114.4 million, or 21.6%, as a result of a

7.5% increase in the number of returns prepared by company-owned offices, with the remainder attributable to price increases and a change in the complexity of returns prepared which results in higher fees. RAL participation fees contributed $54.5 million in revenues in 1997. Fees from electronic filing were up $26.9 million, or 23.7%, due primarily to an increase in the number of U.S. Federal and state returns filed electronically by 15.7% and 29.2%, respectively. Royalties increased by $10.7 million, or 12.2%, reflecting improved results reported by franchises as a result of greater revenues from electronic filing, a 6.3% increase in the number of returns prepared by franchises and increases in pricing.

Operating earnings increased 21.5% to $210.4 million from $173.1 million in 1996. The pretax margin was 21.8% compared to 22.8% in the prior year. The margin decline resulted from increased bad debt associated with electronic filing, marketing expenses targeted at gaining new customers, and costs connected with the implementation of a new, computerized bookkeeping and management reporting system, partially offset by earnings of $8.1 million from RAL participations in 1997.

INTERNATIONAL TAX OPERATIONS

Revenues increased 6.9% to $87.5 million from $81.8 million in 1996. Tax preparation fees increased $7.5 million, or 16.8%, driven by a 4.3% increase in the number of returns prepared as well as increases in pricing. Discounted return fees in Canada decreased $2.6 million, or 10.1%, as a result of the continued loss of certain provincial tax credits leading to fewer eligible returns for discounting.

Operating earnings increased 20.8% to $14.2 million from $11.7 million in 1996. The pretax margin was 16.2% in 1997 compared to 14.3% a year earlier, largely due to a restructuring of employee compensation.

MORTGAGE OPERATIONS

Revenues increased to $8.9 million from $.1 million in 1996. Fiscal 1997 was the first full year for mortgage operations, and revenues included a gain on the securitization of mortgage loans of approximately $3.0 million, as well as interest income on mortgage loans held for sale.

Pretax earnings were $.9 million, compared to $.1 million in 1996.

CREDIT CARD OPERATIONS

Revenues increased 26.7% to $31.5 million from $24.9 million in 1996. The increase in revenues is largely due to an increase in the average credit card receivables balance which totaled $200.6 million for 1997, compared to $147.5 million for 1996.

The pretax loss increased 175.5% to $7.0 million from $2.6 million in 1996. The increased loss is primarily attributable to increased bad debts. Bad debt expense as a percentage of purchase volume was 3.35% in 1997 compared to 3.17% in 1996.

INVESTMENT INCOME, NET

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

UNALLOCATED CORPORATE AND ADMINISTRATIVE

The unallocated corporate and administrative pretax loss decreased 28.4% to $4.2 million compared to $5.8 million in 1996. The improvement was due to an increase in the cash values of corporate-owned whole-life insurance contracts used to informally fund deferred compensation plans. The Company also favorably adjusted its liability for certain insurance contingencies based upon actuarial valuations.

INCOME TAX EXPENSE

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

LIQUIDITY AND CAPITAL RESOURCES

The Company's financial position remained strong in 1998, with cash and marketable securities of $1.536 billion at year end, compared to $539.1 million at the end of 1997. This increase resulted from the sale of the Company's remaining interest in CompuServe in January 1998, which generated $1.033 billion in net proceeds. Working capital increased by $55.3 million, and the working capital ratio decreased to 1.7 to 1 at April 30, 1998, compared to 2.2 to 1 a year earlier. Stockholders' equity at April 30, 1998 and 1997 was $1.342 billion and $999.1 million, respectively.

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

The Company incurs short-term borrowings throughout the year to fund receivables associated with its nonconforming mortgage loan, credit card and other financial services programs. During the past two years, the Company has also used short-term borrowings in January through April to purchase a participation interest of 40% in certain RALs through its agreement with Beneficial National Bank. These short-term borrowings in the U.S. are supported by a $1.8 billion back-up credit facility through November 1998, subject to renewal. This facility was reduced to $1.3 billion subsequent to year end through the end of its term. Outstanding commercial paper related to loans held for sale and credit card receivables amounted to $643.0 million and $269.6 million, respectively, at April 30, 1998 and 1997. Loans held for sale totaled $448.1 million and $107.1 million at April 30, 1998 and 1997, respectively, and credit card receivables amounted to $202.9 million and $247.9 million, respectively.

In Canada, from January through April each year, the Company uses Canadian borrowings to purchase refunds due its clients from Revenue Canada. Maturities of these borrowings range from 30 to 90 days. Net accounts receivable at April 30, 1998 and 1997 include amounts due from Revenue Canada of $13.9 million and $5.4 million, respectively.

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

Utilizing the U.S. commercial paper program described above, the Company originates and purchases nonconforming mortgage loans. As part of its risk management strategy prior to securitization or sale, the Company hedges interest rate risk related to its fixed rate mortgage portfolio by selling short treasury securities and utilizing forward commitments. The Company purchases these financial instruments from certain broker-dealer counterparties. The Company's policy is to utilize such financial instruments only for the purpose of offsetting or reducing the risk of loss associated with a defined or quantified exposure. As a matter of practice, the Company limits the counterparties to major banks and financial institutions.

Management does not anticipate that the level of capital expenditures in 1999, exclusive of franchise and other tax businesses acquisitions, will increase significantly from 1998.

The Company will continue to use short-term financing in the United States to finance various financial activities conducted by BFC, including the funding of loan originations by Option One, and in Canada to finance the Canadian refund discount program.

The Company announced in December 1993 its intention to repurchase from time to time up to 10 million of its shares on the open market. In July 1996, the Company announced its intention to repurchase up to 10 million additional shares on the open market over a two-year period following the separation of CompuServe. Upon the completion of the CompuServe sale in January 1998, the Company recommenced the purchase of its shares in accordance with these authorizations, and 5.2 million shares have been repurchased as of April 30, 1998. The Company intends to continue this share repurchase program, subject to various factors including the price of the stock, availability of excess cash, the ability to maintain financial flexibility, and other investment opportunities available.

The Company has a program to identify, evaluate and implement changes to its computer systems as necessary to address the Year 2000 issue. As a part of the program, the Company has initiated communications with state and Federal governments and suppliers with which it interacts to determine their plans for addressing Year 2000 concerns. The Year 2000 issue affects computer applications that may not properly recognize and process data for the Year 2000 and beyond because of the use of two digits rather than four to define an applicable year. The Company presently is not aware of any material operational or financial Year 2000-related concerns and believes that, with modifications to existing software and conversions to new software, any Year 2000 concerns can be mitigated. Based on management's best estimates, the costs associated with the Year 2000 mitigation are not expected to be material to the Company and such costs are being expensed as incurred. The Company plans to complete the Year 2000 mitigation in 1999. However, the Company cannot make any assurances that its computer systems, or the computer systems of the state and Federal governments and suppliers with which it interacts, will be Year 2000 ready on schedule, or that management's cost estimates will be achieved. The inability of these systems to be ready could result in significant difficulties in processing and completing fundamental transactions. In such event, the Company's results of operations and financial position could be adversely affected in a material manner.

Except for historical information contained herein, the matters addressed in this discussion are forward-looking statements that are subject to risks and uncertainties which could cause actual results to differ materially. Such risks and uncertainties include, but are not limited to, economic, competitive and governmental factors affecting the Company's operations, markets, products, services, prices and various other factors.

CONSOLIDATED STATEMENTS OF EARNINGS
AMOUNTS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS

	Year Ended April 30		
	1998	1997	1996
REVENUES:			
Service revenues	$ 1,083,985	$ 953,000	$ 748,858
Product sales	103,717	31,781	20,022
Royalties	111,142	107,508	96,356
Other	7,941	5,167	6,297
	1,306,785	1,097,456	871,533
EXPENSES:			
Employee compensation and benefits	487,956	421,652	366,153
Occupancy and equipment	195,549	175,414	141,610
Marketing and advertising	75,567	78,139	57,105
Bad debt	75,171	65,865	20,261
Interest	52,252	11,641	3,969
Supplies, freight and postage	51,733	44,625	41,462
Other	112,582	85,932	64,451
	1,050,810	883,268	695,011
OPERATING EARNINGS	255,975	214,188	176,522
OTHER INCOME:			
Investment income, net	25,596	10,870	8,490
Other, net	(680)	--	12,445
	24,916	10,870	20,935
EARNINGS FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	280,891	225,058	197,457
TAXES ON EARNINGS	106,739	81,281	72,368
NET EARNINGS FROM CONTINUING OPERATIONS	174,152	143,777	125,089
NET EARNINGS (LOSS) FROM DISCONTINUED OPERATIONS (LESS APPLICABLE TAXES (BENEFIT) OF ($7,277), ($53,421) AND $35,757)	(13,889)	(96,022)	52,079
NET GAIN ON SALE OF DISCONTINUED OPERATIONS (LESS APPLICABLE INCOME TAXES OF $251,701)	231,867	--	--
NET EARNINGS	$ 392,130	$ 47,755	$ 177,168
BASIC NET EARNINGS PER SHARE:			
Net earnings from continuing operations	$ 1.66	$ 1.38	$ 1.20
Net earnings (loss) from discontinued operations	2.08	(.92)	.50
Net earnings	$ 3.74	$ .46	$ 1.70
DILUTED NET EARNINGS PER SHARE:			
Net earnings from continuing operations	$ 1.62	$ 1.36	$ 1.18
Net earnings (loss) from discontinued operations	2.03	(.91)	.49
Net earnings	$ 3.65	$ .45	$ 1.67

See notes to consolidated financial statements

CONSOLIDATED BALANCE SHEETS
AMOUNTS IN THOUSANDS, EXCEPT SHARE DATA

	April 30	
	1998	1997
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 900,856	$ 457,079
Marketable securities	346,158	61,755
Receivables, less allowance for doubtful accounts of $45,314 and $30,144	793,237	407,441
Prepaid expenses and other current assets	103,026	31,671
Net assets of discontinued operations	--	522,144
Total current assets	2,143,277	1,480,090
INVESTMENTS AND OTHER ASSETS:		
Investments in marketable securities	289,096	20,273
Excess of cost over fair value of net tangible assets acquired, less accumulated amortization of $40,261 and $23,089	288,580	74,794
Other	105,809	66,836
	683,485	161,903
PROPERTY AND EQUIPMENT, at cost less accumulated depreciation and amortization of $167,065 and $142,894	77,321	65,065
	$2,904,083	$1,707,058
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Notes payable	$ 643,002	$ 269,619
Accounts payable, accrued expenses and deposits	114,875	164,872
Accrued salaries, wages and payroll taxes	96,168	105,326
Accrued taxes on earnings	422,847	129,192
Total current liabilities	1,276,892	669,009
LONG-TERM DEBT	249,675	--
OTHER NONCURRENT LIABILITIES	35,884	38,952
COMMITMENTS AND CONTINGENCIES	--	--
STOCKHOLDERS' EQUITY:		
Common stock, no par, stated value $.01 per share: authorized 400,000,000 shares	1,089	1,089
Convertible preferred stock, no par, stated value $.01 per share: authorized 500,000 shares	--	4
Additional paid-in capital	432,335	502,308
Retained earnings	986,030	684,071
	1,419,454	1,187,472
Less cost of common stock in treasury	77,822	188,375
	1,341,632	999,097
	$2,904,083	$1,707,058

See notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
AMOUNTS IN THOUSANDS

	YEAR ENDED APRIL 30		
	1998	1997	1996
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net earnings	$ 392,130	$ 47,755	$ 177,168
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	55,787	36,526	32,477
Provision for deferred taxes on earnings	(15,639)	538	1,183
Gain on sales of subsidiaries	(231,867)	--	(12,445)
Net gain on sales of marketable securities	(1,720)	(454)	(1,134)
Other noncurrent liabilities	(3,068)	730	4,760
Changes in assets and liabilities:			

Receivables	(44,727)	(94,452)	(32,457)
Mortgage loans held for sale:			
Originations and purchases	(2,330,349)	(211,700)	(8,674)
Sales and principal repayments	2,443,725	113,259	--
Prepaid expenses and other current assets	(27,618)	(15,455)	(259)
Net assets of discontinued operations	13,665	95,405	(55,771)
Accounts payable, accrued expenses and deposits	(82,469)	68,514	14,003
Accrued salaries, wages and payroll taxes	(10,965)	10,932	35,109
Accrued taxes on earnings	28,118	36,833	(16,156)
Net cash provided by operating activities	185,003	88,431	137,804
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of marketable securities	(882,378)	(75,595)	(134,233)
Maturities of marketable securities	38,961	517	304,724
Sales of marketable securities	1,321,716	23,852	155,170
Purchases of property and equipment, net	(46,803)	(44,277)	(36,972)
Excess of cost over fair value of net tangible assets acquired, net of cash acquired	(265,700)	(17,249)	(11,139)
Proceeds from sale of subsidiaries	--	--	35,000
Net advances from discontinued operations	--	--	35,004
Other, net	(30,812)	(16,038)	(3,829)
Net cash provided by (used in) investing activities	134,984	(128,790)	343,725
CASH FLOWS FROM FINANCING ACTIVITIES:			
Repayments of notes payable	(11,090,798)	(5,041,386)	(2,252,761)
Proceeds from issuance of notes payable	11,008,018	5,238,354	2,275,991
Proceeds from issuance of long-term debt	249,675	--	--
Dividends paid	(83,635)	(107,988)	(131,263)
Payments to acquire treasury shares	(18,351)	--	(71,897)
Proceeds from stock options exercised	58,881	3,439	13,172
Net cash provided by (used in) financing activities	123,790	92,419	(166,758)
Net increase in cash and cash equivalents	443,777	52,060	314,771
Cash and cash equivalents at beginning of the year	457,079	405,019	90,248
Cash and cash equivalents at end of the year	$ 900,856	$ 457,079	$ 405,019
SUPPLEMENTAL CASH FLOW DISCLOSURES:			
Income taxes paid (received)	$ 102,396	$ (8,047)	$ 73,041
Interest paid	50,302	10,889	5,898

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DOLLARS IN THOUSANDS, EXCEPT SHARE DATA

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
Nature of operations: The operating subsidiaries of H&R Block, Inc. provide a variety of services to the general public, principally in the United States, but also in Canada, Australia and other foreign countries. Approximately 86% of total revenues are generated from tax return preparation, electronic filing of tax returns and other tax-related services. Certain of these subsidiaries also originate, purchase, service, sell and securitize nonconforming mortgages, offer personal productivity software and credit card loans, and purchase participation interests in refund anticipation loans made by a third party lending institution.

Principles of consolidation: The consolidated financial statements include the accounts of H&R Block, Inc. (the "Company") and all majority-owned subsidiaries. All material intercompany transactions and balances have been eliminated.

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

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

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

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

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

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

Excess of cost over fair value of net tangible assets acquired: The excess of cost of purchased subsidiaries, operating offices and franchises over the fair value of net tangible assets acquired is being amortized over an average life of 17 years on a straight-line basis.

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

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

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

Notes payable: The Company uses short-term borrowings to finance temporary liquidity needs and various financial activities conducted by its subsidiaries. The weighted average interest rates of notes payable at April 30, 1998 and 1997 were 5.6% and 5.7%, respectively.

Revenue recognition: Service revenues are recorded in the period in which the service is performed.

Product sales consist primarily of gains on sales of mortgage loans and software sales. Gains on loan sales are recognized utilizing the specific identification method at the time of sale. Software sales are recorded at the time of shipment.

The Company records franchise royalties, based upon the contractual percentages of franchise revenues, in the period in which the franchise provides the service.

Advertising expense: The Company expenses advertising costs the first time the advertising takes place.

Taxes on earnings: The Company and its subsidiaries file a consolidated Federal income tax return on a calendar year basis. Therefore, the current liability for taxes on earnings recorded in the balance sheet at each year-end consists principally of taxes on earnings for the period January 1 to April 30 of the respective year. Deferred taxes, which are not material, are provided for temporary differences between financial and tax reporting, which consist principally of accrued expenses, deferred compensation, mark-to-market adjustments and depreciation.

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

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

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

Hedging and forward commitments: As a part of its interest rate risk management strategy, the Company may choose to hedge its interest rate risk related to its fixed rate mortgage portfolio by selling short treasury securities and utilizing forward commitments. The Company classifies these instruments as hedges of specific loan receivables. The gains and losses derived from these instruments are deferred and included in the carrying amounts of the related hedged items and ultimately recognized in earnings.

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

Segments: In the third quarter of fiscal 1998, the Company elected the early adoption of Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information" ("SFAS 131"). SFAS 131 requires that a company report financial and descriptive information about its reportable operating segments, defined as those components of an enterprise about which separate financial information is available and is evaluated regularly by management in deciding how to allocate resources and in assessing performance. Management analyzes its business according to differences in types of services and geographic locations, and the reportable operating segments have been determined accordingly.

New accounting standards: In June 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income" ("SFAS 130"), effective for the Company's fiscal year ending April 30, 1999. SFAS 130 establishes standards for reporting and display of comprehensive income and its components (revenues, expenses, gains and losses) in a full set of general-purpose financial statements. SFAS 130 requires that all items that are required to be recognized under accounting standards as components of comprehensive income be reported in a financial statement that is displayed with the same prominence as other financial statements. SFAS 130 requires that the Company (a) classify items of other comprehensive income by their nature in a financial statement and (b) display the accumulated balance of other comprehensive income separately from retained earnings and additional paid-in capital in the equity section of a statement of financial position. The Company does not anticipate that the implementation of SFAS 130 will have a material impact on the consolidated financial statements.

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"), effective for the Company's fiscal year ending April 30, 2001. SFAS 133 requires companies to record derivative instruments as assets or liabilities, measured at fair value. The recognition of gains or losses resulting from changes in the values of those derivative instruments is based on the use of each derivative instrument and whether it qualifies for hedge accounting. The key criterion for hedge accounting is that the hedging relationship must be highly effective in achieving offsetting changes in fair value or cash flows. The Company has not yet determined the effect of SFAS 133 on the consolidated financial statements.

NET EARNINGS PER SHARE

The Company has adopted Statement of Financial Accounting Standards No. 128, "Earnings per Share" ("SFAS 128"), issued by the Financial Accounting Standards Board in February 1997, which is effective for periods ending after December 15, 1997. SFAS 128, which simplifies the standards for computing and presenting earnings per share, replaces the previously reported primary and fully diluted earnings per share with basic and diluted earnings per share. Unlike primary earnings per share, basic earnings per share excludes any dilutive effects of options, warrants and convertible securities. Diluted earnings per share is very similar to the previously reported primary earnings per share. Accordingly, net earnings per share for all periods presented have been restated to conform to the new standard.

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

	Year Ended April 30		
	1998	1997	1996
Net earnings from continuing operations	$174,152	$143,777	$ 125,089
Basic weighted average shares	104,829	103,985	103,926
Effect of dilutive securities:			
Common and convertible preferred stock options	1,229	230	525
Convertible preferred stock	1,515	1,625	1,608
Dilutive potential common shares	107,573	105,840	106,059
Net earnings per share from continuing operations:			
Basic	$1.66	$1.38	$1.20
Diluted	1.62	1.36	1.18

Diluted net earnings per share excludes the impact of common stock options of 244,071, 5,651,642 and 4,024,027 shares for 1998, 1997 and 1996, respectively, because the options' exercise prices were greater than the average market price of the common shares and therefore, the effect would be antidilutive.

CASH AND CASH EQUIVALENTS
Cash and cash equivalents is comprised of the following:

	April 30	
	1998	1997
Municipal bonds	$ 464,667	$ 14,000
Certificates of deposit	239,582	99,747
Commercial paper	132,972	195,015
Cash and interest-bearing deposits	58,765	58,671
U.S. Government obligations	--	62,586
Other interest-bearing securities	4,870	27,060
	$ 900,856	$ 457,079

MARKETABLE SECURITIES
The amortized cost and market value of marketable securities at April 30, 1998 and 1997 are summarized below:

	1998				1997			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
Current:								
Municipal bonds and notes	$ 149,842	$ --	$ 18	$149,824	$ 6,167	$ 17	$ 12	$ 6,172
Asset-backed securities	151,383	18	208	151,193	--	--	--	--
U.S. Government obligations	--	--	--	--	15,047	8	9	15,046
Other debt investments	45,000	141	--	45,141	40,406	131	--	40,537
	346,225	159	226	346,158	61,620	156	21	61,755
Noncurrent:								
Municipal bonds	181,060	96	1,472	179,684	15,039	325	135	15,229
Corporate bonds	68,790	--	242	68,548	--	--	--	--
U.S. Government obligations	36,509	--	228	36,281	--	--	--	--
Preferred stock	--	--	--	--	647	299	--	946
Common stock	2,467	2,118	2	4,583	2,625	1,476	3	4,098
	288,826	2,214	1,944	289,096	18,311	2,100	138	20,273
	$ 635,051	$2,373	$2,170	$635,254	$ 79,931	$2,256	$ 159	$82,028

All marketable securities at April 30, 1998 are classified as available-for-sale. Proceeds from the sales of available-for-sale securities were $1,321,716, $23,852 and $155,170 during 1998, 1997 and 1996, respectively. Gross realized gains on those sales during 1998, 1997 and 1996 were $1,826, $600 and $1,520, respectively; gross realized losses were $106, $146 and $386, respectively. At April 30, 1998 and 1997, the net unrealized holding gain on available-for-sale securities included in stockholders' equity in the consolidated balance sheet was $126 and $1,326, respectively.

Contractual maturities of available-for-sale debt securities at April 30, 1998 are presented below. Since expected maturities differ from contractual maturities due to the issuers' rights to prepay certain obligations or the seller's rights to call certain obligations, the first call date, put date or auction date for municipal bonds and notes is considered the contractual maturity date.

	AMORTIZED COST	MARKET VALUE
Within one year	$ 346,225	$ 346,158
After one year through five years	278,104	276,162
After five years through 10 years	8,255	8,351
	$ 632,584	$ 630,671

RECEIVABLES
Receivables consist of the following:

	April 30	
	1998	1997
Mortgage loans held for sale	$ 448,102	$ 107,115
Credit card loans	202,852	247,889
Other	187,597	82,581
	838,551	437,585
Allowance for doubtful accounts	45,314	30,144
	$ 793,237	$ 407,441

PROPERTY AND EQUIPMENT
A summary of property and equipment follows:

	April 30	
	1998	1997
Land	$ 2,872	$ 2,568
Buildings	21,350	19,812
Computer and other equipment	180,273	154,268
Leasehold improvements	39,891	31,311
	244,386	207,959
Less accumulated depreciation and amortization	167,065	142,894

	$ 77,321	$ 65,065
	=========	==========

Depreciation and amortization expense for 1998, 1997 and 1996 amounted to $37,674, $30,727 and $21,006, respectively.

LONG-TERM DEBT

On October 21, 1997, the Company issued $250,000 of 6 3/4% Senior Notes under a shelf registration statement. The Senior Notes are due November 1, 2004, and are not redeemable prior to maturity. The net proceeds of this transaction were used to repay short-term borrowings which initially funded the acquisition of Option One Mortgage Corporation ("Option One"). Based upon borrowing rates currently available to the Company for indebtness with similar terms, the fair value of the long-term debt was approximately $254,515 at April 30, 1998.

OTHER NONCURRENT LIABILITIES

The Company has deferred compensation plans which permit directors and certain employees to defer portions of their compensation and accrue earnings on the deferred amounts. The compensation, together with Company matching of deferred amounts, has been accrued, and the only expenses related to these plans are the Company match and the earnings on the deferred amounts, which are not material to the financial statements. Included in other noncurrent liabilities is $29,885 and $32,990 at April 30, 1998 and 1997, respectively, to reflect the liability under these plans. The Company purchased whole-life insurance contracts on certain related directors and employees to recover a majority of distributions made or to be made under the plans and has recorded the cash surrender value of the policies in other assets. If all the assumptions regarding mortality, earnings, policy dividends and other factors are realized, the Company will ultimately realize its investment plus a factor for the use of its money.

STOCKHOLDERS' EQUITY

Changes in the components of stockholders' equity during the three years ended April 30, 1998 are summarized below:

	COMMON STOCK		CONVERTIBLE PREFERRED STOCK		ADDITIONAL PAID-IN	RETAINED	TREASURY STOCK	
	SHARES	AMOUNT	SHARES	AMOUNT	CAPITAL	EARNINGS	SHARES	AMOUNT
Balances at May 1, 1995	108,972,699	$1,089	401,768	$ 4	$140,578	$700,423	(4,109,662)	$(156,229)
Net earnings for the year	--	--	--	--	--	177,168	--	--
Stock options exercised	--	--	3,031	--	(1,501)	--	340,395	12,957
Restricted stock granted	--	--	--	--	(47)	--	46,370	1,763
Unrealized loss on translation	--	--	--	--	--	(50)	--	--
Acquisition of treasury shares	--	--	--	--	--	--	(1,833,200)	(71,897)
Sale of stock by subsidiary	--	--	--	--	365,664	--	--	--
Change in net unrealized gain on marketable securities	--	--	--	--	--	934	--	--
Cash dividends paid -- $1.27 1/4 per share	--	--	--	--	--	(131,263)	--	--
Balances at April 30, 1996	108,972,699	1,089	404,799	4	504,694	747,212	(5,556,097)	(213,406)
Net earnings for the year	--	--	--	--	--	47,755	--	--
Stock options exercised	--	--	2,280	--	24	--	88,945	3,415
Cancellation of restricted stock	--	--	--	--	--	--	(28,217)	(1,044)
Unrealized loss on translation	--	--	--	--	--	(3,065)	--	--
Repurchase of Convertible Preferred Stock	--	--	(391)	--	--	--	--	--
Stock issued for acquisition	--	--	--	--	(2,410)	--	589,948	22,660
Change in net unrealized gain on marketable securities	--	--	--	--	--	157	--	--
Cash dividend paid -- $1.04 per share	--	--	--	--	--	(107,988)	--	--
Balances at April 30, 1997	108,972,699	1,089	406,688	4	502,308	684,071	(4,905,421)	(188,375)
Net earnings for the year	--	--	--	--	--	392,130	--	--
Stock options exercised	--	--	32,088	--	(1,832)	--	1,578,340	60,882
Unrealized loss on translation	--	--	--	--	--	(5,290)	--	--
Conversion of Convertible Preferred Stock	--	--	(435,972)	(4)	(68,018)	--	1,743,888	68,022
Cancellation of Convertible Preferred Stock	--	--	(910)	--	(123)	(46)	--	--

Acquisition of treasury shares	--	--	--	--	--	--	(408,850)	(18,351)
Change in net unrealized gain on marketable securities	--	--	--	--	--	(1,200)	--	--
Cash dividends paid -- $.80 per share	--	--	--	--	--	(83,635)	--	--
Balances at April 30, 1998	108,972,699	$1,089	1,894	$ --	$432,335	$986,030	(1,992,043)	$ (77,822)

The Company is authorized to issue 6,000,000 shares of Preferred Stock, without par value. At April 30, 1998, the Company had 5,560,833 shares of authorized but unissued Preferred Stock. Of the unissued shares, 600,000 shares have been designated as Participating Preferred Stock in connection with the Company's shareholder rights plan.

On March 8, 1995, the Board of Directors authorized the issuance of a series of 500,000 shares of nonvoting Preferred Stock designated as Convertible Preferred Stock, without par value. In April 1995, 401,768 shares of Convertible Preferred Stock were issued in connection with an acquisition. Each share of Convertible Preferred Stock became convertible on April 5, 1998 into four shares of Common Stock of the Company, subject to adjustment upon certain events. The holders of the Convertible Preferred Stock are not entitled to receive dividends paid in cash, property or securities and, in the event of any dissolution, liquidation or winding-up of the Company, will share ratably with the holders of Common Stock then outstanding in the assets of the Company after any distribution or payments are made to the holders of Participating Preferred Stock or the holders of any other class or series of stock of the Company with preference over the Common Stock. In April 1998, the Company issued 1,743,888 shares of its common stock upon conversion of 435,972 shares of the Convertible Preferred Stock.

STOCK OPTION PLANS

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

The plan for eligible seasonal employees, as amended, provided for the grant of options on June 30, 1998, 1997 and 1996 at the market price on the date of the grant. The options are exercisable during September in each of the two years following the calendar year of the grant.

Changes during the years ended April 30, 1998, 1997 and 1996 under these plans were as follows:

	1998		1997		1996	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Options outstanding, beginning of year	6,217,699	$35.78	6,413,928	$37.93	4,865,814	$35.73
Options granted	3,784,925	32.28	3,124,588	32.34	3,545,692	40.35
Options exercised	(1,608,233)	33.63	(90,045)	20.08	(362,849)	29.02
Options which expired	(3,283,999)	37.58	(3,230,772)	37.16	(1,634,729)	38.63
Options outstanding, end of year	5,110,392	32.71	6,217,699	35.78	6,413,928	37.93
Shares exercisable, end of year	3,428,615	32.87	4,506,372	36.00	4,029,301	37.56
Shares reserved for future grants, end of year	13,159,852		13,660,778		13,554,594	

A summary of stock options outstanding and exercisable at April 30, 1998 follows:

Range of Exercise Prices	Outstanding: Number Outstanding at April 30	Outstanding: Weighted-Average Remaining Contractual Life	Outstanding: Weighted-Average Exercise Price	Exercisable: Number Exercisable at April 30	Exercisable: Weighted-Average Exercise Price
$6.9525 - 16.25	10,280	2 years	$14.71	10,280	$14.71
$17.4375 - 28.75	397,731	7 years	26.70	230,564	26.03
$30.6875 - 39.875	4,458,310	9 years	32.82	3,027,390	33.02
$40 - 44.375	244,071	8 years	41.12	160,381	41.10
	5,110,392			3,428,615	

In connection with a previous acquisition, outstanding options to purchase the acquired company's common stock under an employee stock option plan were converted on April 4, 1995 into options to purchase 51,828 shares of the Company's Convertible Preferred Stock. During 1998, 1997 and 1996, options to purchase Convertible Preferred Stock of 32,088, 2,280 and 3,031, respectively, were exercised, and 899, 11,163 and 2,052, respectively, were terminated. At April 30, 1998, the options for the remaining 315 shares expired.

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

	Year Ended April 30: 1998	1997	1996
Net earnings:			
As reported	$392,130	$47,755	$177,168
Pro forma	379,985	34,891	168,232
Basic net earnings per share:			
As reported	$3.74	$.46	$1.70
Pro forma	3.62	.34	1.62
Diluted net earnings per share:			
As reported	$3.65	$.45	$1.67
Pro forma	3.55	.33	1.59

The SFAS 123 fair value method of accounting is not required to be applied to options granted prior to May 1, 1995, and therefore, the pro forma compensation cost may not be representative of that to be expected in future years.

For the purposes of computing the pro forma effects of stock option grants under the fair value accounting method, the fair value of each stock option grant was estimated on the date of the grant using the Black-Scholes option pricing model. The weighted-average fair value of stock options granted during 1998, 1997 and 1996 was $5.91, $6.14 and $8.46, respectively. The following weighted-average assumptions were used for grants during the following periods:

	Year Ended April 30: 1998	1997	1996

Risk-free interest rate	6.21%	6.28%	5.89%
Expected life	3 years	3 years	3 years
Expected volatility	31.99%	34.08%	35.32%
Dividend yield	2.48%	2.42%	1.99%

SHAREHOLDER RIGHTS PLAN

On July 14, 1988, the Company's Board of Directors adopted a shareholder rights plan to deter coercive or unfair takeover tactics and to prevent a potential acquirer from gaining control of the Company without offering a fair price to all of the Company's stockholders. The plan was amended by the Board of Directors on May 9, 1990, September 11, 1991, May 10, 1995, and March 25, 1998. Under the plan, a dividend of one right (a "Right") per share was declared and paid on each share of the Company's Common Stock outstanding on July 25, 1988. As to shares issued after such date, Rights automatically attach to them after their issuance.

Under the plan, as amended, a Right becomes exercisable when a person or group of persons acquires beneficial ownership of 15% or more of the outstanding shares of the Company's Common Stock without the prior written approval of the Company's Board of Directors (an "Unapproved Stock Acquisition"), and at the close of business on the tenth business day following the commencement of, or the public announcement of an intent to commence, a tender offer that would result in an Unapproved Stock Acquisition. When exercisable, the registered holder of each Right may purchase from the Company one two-hundredths of a share of a new class of the Company's Participating Preferred Stock, without par value, at a price of $60.00, subject to adjustment. The registered holder of each Right then also has the right (the "Subscription Right") to purchase for the exercise price of the Right, in lieu of shares of Participating Preferred Stock, a number of shares of the Company's Common Stock having a market value equal to twice the exercise price of the Right. Following an Unapproved Stock Acquisition, if the Company is involved in a merger, or 50% or more of the Company's assets or earning power are sold, the registered holder of each right has the right (the "Merger Right") to purchase for the exercise price of the Right a number of shares of the common stock of the surviving or purchasing company having a market value equal to twice the exercise price of the Right.

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

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

On March 25, 1998, the Company's Board of Directors adopted a new shareholder rights plan which will become effective upon the earliest of the termination or expiration of the existing plan or the date upon which the existing plan is determined to have become ineffective, regardless of the reason therefor. Under the new plan, a dividend of one Right per share was declared and will be paid on each share of the Company's Common Stock outstanding on the effective date of the new plan. Rights will automatically attach to shares issued after such date.

Under the new plan, a Right will become exercisable in the event of an Unapproved Stock Acquisition, and at the close of business on the tenth business day following the commencement of, or the public announcement of an intent to commence, a tender offer that would result in an Unapproved Stock Acquisition. When exercisable, the registered holder of each Right under the new plan may purchase from the Company one one-hundredth of a share of a class of the Company's Participating Preferred Stock, without par value, at a price of $215.00, subject to adjustment. The registered holder of each Right then also will have a subscription right identical to the Subscription Right provided for in the existing plan. Following an Unapproved Stock Acquisition, if the Company is involved in a merger, or 50% or more of the Company's assets or earning power are sold, the registered holder of each Right under the new plan will have a merger right identical to the Merger Right provided for in the existing plan.

Under the new plan, the Board of Directors may effect an exchange in circumstances and in a manner identical to the exchange provided for in the existing plan. Upon the occurrence of any of the events giving rise to the exercisability of the subscription right or the merger right or the ability of the Board of Directors to effect the exchange, the Rights held by the acquiring person or group under the new plan will become void as they relate to the subscription right, the merger right or the exchange.

The Company may redeem the Rights under the new plan at a price of $.00125 per Right at any time prior to the earlier of (i) an Unapproved Stock Acquisition, or (ii) the expiration of the rights. The Rights under the new plan will expire on March 25, 2008, unless extended by the Board of Directors. Until a Right is exercised, the holder thereof, as such, will have no rights as a stockholder of the Company, including the right to vote or to receive dividends. The issuance of the Rights alone will have no dilutive effect and will not affect reported net earnings per share.

OTHER EXPENSES

Included in other expenses are the following:

	Year Ended April 30		
	1998	1997	1996
Purchased services	$ 17,971	$ 14,504	$ 10,866
Amortization of goodwill	17,352	5,531	11,471
Travel and entertainment	11,648	9,773	7,370
Taxes and licenses	11,396	10,475	8,788
Refund anticipation loan servicing fees	7,889	9,838	--
Legal and professional	6,382	6,105	6,360
Loan servicing	5,851	--	--

TAXES ON EARNINGS

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

	Year Ended April 30		
	1998	1997	1996
United States	$269,558	$ 214,469	$188,749
Foreign	11,333	10,589	8,708
	$280,891	$ 225,058	$197,457

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

	Year Ended April 30		
	1998	1997	1996

Currently payable:			
Federal	$103,099	$67,992	$59,234
State	13,796	7,710	7,891
Foreign	5,483	5,041	4,060
	122,378	80,743	71,185
Deferred:			
Accrued expenses	(5,271)	1,215	--
Mark-to-market adjustments	(3,312)	(143)	--
Allowance for credit losses	(2,699)	(1,382)	--
Residual interest income	(2,167)	--	--
Deferred loan fees	1,921	--	--
Depreciation	(1,501)	2,821	374
Accrued income	(1,306)	(112)	1,887
Deferred compensation	(1,206)	(1,877)	(1,068)
Other	(98)	16	(10)
	(15,639)	538	1,183
	$106,739	$81,281	$72,368

Provision is not made for possible income taxes payable upon distribution of unremitted earnings of foreign subsidiaries. Such unremitted earnings aggregated $64,208 at December 31, 1997. Management believes the cost to repatriate these earnings would not be material.

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

	Year Ended April 30		
	1998	1997	1996
Statutory rate	35.0%	35.0%	35.0%
Increases (reductions) in income taxes resulting from:			
State income taxes, net of Federal income tax benefit	2.8%	2.2%	2.6%
Foreign income taxes, net of Federal income tax benefit	.5%	.6%	.5%
Nontaxable Federal income	(.1%)	(.5%)	(.8%)
Other	(.2%)	(1.2%)	(.6%)
Effective rate	38.0%	36.1%	36.7%

ACQUISITIONS

On June 17, 1997, the Company acquired Option One, a company engaged in the origination, purchase, servicing, securitization and sale of nonconforming mortgage loans. The cash purchase price was $218,083, consisting of $28,083 in adjusted stockholder's equity and a premium of $190,000. In addition, the Company made cash payments of $456,163 to Option One's former parent to eliminate intercompany loans made to Option One to finance its mortgage loan operations. The $456,163 payment was recorded as an intercompany loan and was repaid to the Company by the end of June 1997 after Option One sold the mortgage loans to a third party in the ordinary course of business. The acquisition was accounted for as a purchase and, accordingly, Option One's results are included since the date of acquisition. The fair value of tangible assets acquired, including cash, and liabilities assumed was $683,777 and $463,877, respectively. Liabilities assumed were treated as a noncash investing activity in the consolidated statement of cash flows for the year ended April 30, 1998. The excess of cost over fair value of net tangible assets acquired was $183,077 and is being amortized on a straight-line basis over 15 years. The acquisition was ultimately financed with the issuance of $250,000 in Senior Notes during the second quarter of fiscal 1998.

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

	Year Ended April 30	
	1998	1997
Revenues	$1,314,071	$1,192,790
Net earnings from continuing operations	170,135	144,527
Net earnings	388,113	48,505
Basic net earnings per share	$3.70	$ .47
Diluted net earnings per share	3.61	.46

During fiscal 1998, 1997 and 1996, the Company made other acquisitions which were accounted for as purchases. Their operations, which are not material, are included in the consolidated statements of earnings.

SALE OF SUBSIDIARIES

On January 31, 1998, the Company completed the sale of its 80.1% interest in CompuServe to a subsidiary of WorldCom, Inc. ("WorldCom"). The Company recorded a $231,867 gain, net of taxes, on the transaction. The sale was structured as a stock-for-stock transaction in which the Company received 30,108,610 shares of WorldCom stock in exchange for its 80.1% ownership interest (74,200,000 shares) in CompuServe stock. The Company completed the transaction through its receipt of $1,032,699 in net proceeds from the monetization of 100% of its WorldCom stock in a block trade on February 2, 1998. As a part of the CompuServe transaction, the Company has agreed to indemnify WorldCom and CompuServe against 80.1% of any losses and expenses incurred by them with respect to litigation and claims brought against CompuServe, any of its current or former officers, directors, employees, agents or underwriters relating to CompuServe's initial public offering in April 1996. The shares of WorldCom stock received in the stock-for-stock transaction were treated as a noncash investing activity in the consolidated statement of cash flows for the year ended April 30, 1998. The consolidated financial statements reflect CompuServe as discontinued operations. Revenues from CompuServe for the years ended April 30, 1998, 1997 and 1996 were $628,245, $841,887 and $793,165, respectively.

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

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

COMMITMENTS AND CONTINGENCIES

Substantially all of the operations of the Company's subsidiaries are conducted in leased premises. Most of the operating leases are for a one-year period with renewal options of one to three years and provide for fixed monthly rentals. Lease commitments at April 30, 1998, for fiscal 1999, 2000, 2001, 2002 and 2003 aggregated $47,186, $37,857, $24,957, $13,138 and $6,617, respectively, with no significant commitments extending beyond that period of time. The Company's rent expense for the years 1998, 1997 and 1996 aggregated $84,912, $78,141 and $65,521, respectively.

The Company has commitments to its credit card holders to the extent of the unused credit limits on credit card loans. These commitments amounted to $779,195 and $923,348 at April 30, 1998 and 1997, respectively. The Company does not require collateral to secure credit card loan agreements. Commitments on credit card loans are cancelable by the Company at any time and do not necessarily represent future cash requirements.

The Company is obligated to purchase, from a 40%-owned affiliate, 60% of the mortgage loan volume which meets certain criteria as established by the Company. The Company purchased $298,405 and $122,535 of such loans during the years ended April 30, 1998 and 1997, respectively, which may not be indicative of future obligations. The Company also extends warehouse financing of $100,000 to this affiliate to facilitate the accumulation of mortgage loans, of which $68,434 and $8,199 was drawn at April 30, 1998 and 1997, respectively.

The Company has commitments to fund mortgage loans to customers as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses. The commitments to fund loans amounted to $199,487 at April 30, 1998. External market forces impact the probability of commitments being exercised, and therefore, total commitments outstanding do not necessarily represent future cash requirements.

At April 30, 1998, the Company maintained a $1,800,000 backup credit facility to support various financial activities conducted by its subsidiaries through the commercial paper program. The annual commitment fee required to support the availability of this facility is eight basis points per annum on the unused portion of the facility. Among other provisions, the credit agreement limits the Company's indebtedness.

The Company is responsible for servicing mortgage loans for others of $2,924,683, subservicing loans of $1,389,851, and the master servicing of $418,161 previously securitized mortgage loans held in trust at April 30, 1998. The mortgage loans held in trust are serviced by a related party. Fiduciary bank accounts that are maintained on behalf of investors and for impounded collections were $67,650 at April 30, 1998. These bank accounts are not assets of the Company and are not reflected in the accompanying consolidated financial statements.

CompuServe, certain current and former officers and directors of CompuServe and the Company have been named as defendants in six lawsuits pending before the state and Federal courts in Columbus, Ohio. All suits allege similar violations of the Securities Act of 1933 based on assertions of omissions and misstatements of fact in connection with CompuServe's public filings related to its initial public offering in April 1996. One state lawsuit also alleges certain oral omissions and misstatements in connection with such offering. Relief sought in the lawsuits is unspecified, but includes pleas for rescission and damages. One Federal lawsuit names the lead underwriters of CompuServe's initial public offering as additional defendants and as representatives of a defendant class consisting of all underwriters who participated in such offering. The Federal suits have been consolidated, the defendants have filed a motion to dismiss the consolidated suits, and the court has stayed all proceedings pending the outcome of the state court suits. The four state court lawsuits also allege violations of various state statutes and common law of negligent misrepresentation in addition to the 1933 Act claims. The state lawsuits have been consolidated for discovery purposes and defendants have filed a motion for summary judgment covering all four state lawsuits. As a part of the sale of its interest in CompuServe, the Company has agreed to indemnify WorldCom and CompuServe against 80.1% of any losses and expenses incurred by them with respect to these lawsuits. The defendants are vigorously defending these lawsuits. In the opinion of management, the ultimate resolution of these suits will not have a material adverse impact on the Company's consolidated financial position or future results of operations.

FINANCIAL INSTRUMENTS

The Company sells short treasury securities under an open repurchase agreement that can be adjusted at any time by either party. The position on certain or all of the fixed rate mortgages is closed when the Company enters into a forward commitment to sell those mortgages. Deferred gains on the treasury securities hedging instrument amounted to $127 at April 30, 1998. The contract value and market value of this hedging instrument as of April 30, 1998 was $39,992 and $40,111, respectively. The contract value and market value of the forward commitment as of April 30, 1998 was $210,000 and $210,714, respectively.

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

The Company is exposed to on-balance sheet credit risk related to its receivables. Mortgage loans made to subprime borrowers present a higher level of risk of default than conforming loans. These loans also involve additional liquidity risk due to a more limited secondary market than conforming loans. While the Company believes that the underwriting procedures and appraisal processes it employs enable it to mitigate these risks, no assurance can be given that such procedures or processes will be adequate protection against these risks. The Company is exposed to off-balance sheet credit risk related to mortgage loan receivables which the Company has committed to buy or fund and commitments made to credit card holders to meet their financing needs.

QUARTERLY FINANCIAL DATA (UNAUDITED)

	FISCAL 1998 QUARTER ENDED				FISCAL 1997 QUARTER ENDED			
	APRIL 30, 1998	JAN. 31, 1998	OCT. 31, 1997	JULY 31, 1997	APRIL 30, 1997	JAN. 31, 1997	OCT. 31, 1996	JULY 31, 1996
Revenues	$ 975,900	$ 208,683	$ 82,992	39,210	$ 880,597	$ 155,137	$ 41,107	$ 20,615
Continuing operations:								
Earnings (loss) before income taxes (benefits)	$ 414,384	$ (28,155)	$ (49,829)	$ (55,509)	$ 337,847	$ (22,418)	$ (44,484)	$ (45,887)
Taxes (benefits) on earnings	157,466	(10,699)	(19,380)	(20,648)	124,028	(8,496)	(16,860)	(17,391)
Net earnings (loss)	256,918	(17,456)	(30,449)	(34,861)	213,819	(13,922)	(27,624)	(28,496)
Net earnings (loss) from discontinued operations	--	167	(10,782)	(3,274)	(14,384)	(11,404)	(46,504)	(23,730)
Net gain on sale of discontinued operations	--	231,867	--	--	--	--	--	--
Net earnings (loss)	$ 256,918	$ 214,578	$ (41,231)	$ (38,135)	$ 199,435	$ (25,326)	$ (74,128)	$ (52,226)
Basic net earnings per share:								
Net earnings (loss) from continuing operations	$ 2.43	$ (.17)	$ (.29)	$ (.33)	$ 2.05	$ (.13)	$ (.27)	$ (.27)
Net earnings (loss)	$ 2.43	$ 2.04	$ (.39)	$ (.37)	$ 1.91	$ (.24)	$ (.71)	$ (.50)
Diluted net earnings per share:								
Net earnings (loss) from continuing operations	$ 2.37	$ (.17)	$ (.29)	$ (.33)	$ 2.03	$ (.13)	$ (.27)	$ (.27)
Net earnings (loss)	$ 2.37	$ 2.04	$ (.39)	$ (.37)	$ 1.90	$ (.24)	$ (.71)	$ (.50)

The accumulation of four quarters in fiscal 1998 for basic net earnings per share from continuing operations, basic net earnings per share and diluted net earnings per share from continuing operations is less than the related per share amounts for the year ended April 30, 1998 due to the timing of the exercise of stock options and the conversion of the Convertible Preferred Stock.

Revenues for the first quarter of fiscal 1998 of $39,210 differs from the amount reported on Form 10-Q for the three months ended July 31, 1997 by $4,757 due to certain reclassifications made to conform with the current year presentation.

SUMMARIZED FINANCIAL INFORMATION

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

	April 30	
	1998	1997
Condensed balance sheets:		
Cash and cash equivalents	$ 30,895	$ 3,425
Finance receivables, net	737,005	380,206
Other assets	311,759	34,657
Total assets	$1,079,659	$418,288
Commercial paper	$ 643,002	$269,619
Long-term debt	249,675	--
Other liabilities	57,372	26,867

Stockholder's equity	129,610	121,802
Total liabilities and stockholder's equity	$1,079,659	$418,288

	Year Ended April 30		
	1998	1997	1996
Condensed statements of operations:			
Revenues	$246,787	$ 110,777	$ 36,854
Earnings (loss) from operations	12,859	7,053	(7,368)
Earnings before income taxes	12,859	7,053	5,077
Net earnings (loss)	7,813	4,337	(255)

SEGMENT INFORMATION

The principal business activity of the Company's operating subsidiaries is providing tax and financial services to the general public. Management has determined the reportable segments identified below according to differences in types of services, geographic locations, and how operational decisions are made. Geographical information is presented within the segment data below. All foreign countries in which subsidiaries of the Company operate, which are individually immaterial, are included in International Tax Operations. Included below is the financial information on each segment that is used by management to evaluate the segment's results. The Company operates in the following reportable segments:

U.S. Tax Operations: This segment is primarily engaged in providing tax return preparation, filing, and related services to the general public in the United States. Tax-related service revenue includes fees from company-owned tax offices and royalties from franchised offices. This segment also purchases participation interests in refund anticipation loans made by a third party lending institution which are offered to tax clients, and provides tax preparation and other personal productivity software to the general public. Revenues of this segment are seasonal in nature.

International Tax Operations: This segment is primarily engaged in providing tax return preparation, filing, and related services to the general public in Canada, Australia and the United Kingdom. In addition, International Tax Operations has franchise offices in eight countries. Tax-related service revenue includes fees from company-owned tax offices and royalties from franchised offices. Revenues of this segment are seasonal in nature.

Mortgage Operations: This segment is primarily engaged in the origination, purchase, servicing, securitization and sale of nonconforming mortgage loans in the United States. Mortgage origination services are offered through a network of mortgage brokers in 46 states and through H&R Block tax offices in 15 states.

Credit Card Operations: This segment operates in the United States and sponsors credit card loans under a co-branded agreement and, through an Internet site and an online service provider, allows cardholders access to account transactions and payment detail through an online lookup feature.

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

Information concerning the Company's operations by reportable segment for the years ended April 30, 1998, 1997 and 1996 is as follows:

	1998	1997	1996
REVENUES:			
U.S. tax operations	$ 1,047,324	$ 966,524	$ 759,354
International tax operations	81,754	87,493	81,822
Mortgage operations	135,778	8,895	91

Credit card operations	37,404	31,513	24,876
Unallocated corporate	5,125	3,498	5,720
Intersegment sales	(600)	(467)	(330)
Total revenues	$ 1,306,785	$ 1,097,456	$ 871,533
EARNINGS FROM CONTINUING OPERATIONS:			
U.S. tax operations	$ 253,278	$ 210,365	$ 173,098
International tax operations	11,922	14,172	11,731
Mortgage operations	30,811	865	91
Credit card operations	(15,542)	(7,025)	(2,550)
Unallocated corporate	(11,444)	(4,189)	(5,848)
Investment income, net	25,597	10,870	8,490
Acquisition interest expense	(13,731)	--	--
Other, net	--	--	12,445
Earnings from continuing operations before income taxes	$ 280,891	$ 225,058	$ 197,457
DEPRECIATION AND AMORTIZATION:			
U.S. tax operations	$ 37,313	$ 31,981	$ 28,804
International tax operations	4,541	3,594	3,168
Mortgage operations	12,690	56	--
Credit card operations	815	505	244
Unallocated corporate	428	390	261
Total depreciation and amortization	$ 55,787	$ 36,526	$ 32,477
IDENTIFIABLE ASSETS:			
U.S. tax operations	$ 200,243	$ 189,007	$ 119,653
International tax operations	48,362	39,145	27,529
Mortgage operations	829,396	125,734	11,173
Credit card operations	202,412	253,052	168,049
Unallocated corporate	1,623,670	577,976	473,647
Net assets of discontinued operations	--	522,144	617,510
Total assets	$ 2,904,083	$ 1,707,058	$ 1,417,561
CAPITAL EXPENDITURES:			
U.S. tax operations	$ 36,495	$ 38,760	$ 34,987
International tax operations	7,013	4,773	1,906
Mortgage operations	4,736	205	--
Credit card operations	224	736	463
Unallocated corporate	1,513	279	660
Total capital expenditures	$ 49,981	$ 44,753	$ 38,016

MANAGEMENT'S REPORT

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

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

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

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

/s/ Frank L. Salizzoni
Frank L. Salizzoni

President and Chief Executive Officer

/s/ Ozzie Wenich
Senior Vice President and
Chief Financial Officer

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated balance sheets of H&R Block, Inc. and subsidiaries as of April 30, 1998 and 1997, and the related consolidated statements of earnings and cash flows for each of the three years in the period ended April 30, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of H&R Block, Inc., and subsidiaries as of April 30, 1998 and 1997, and the results of their operations and their cash flows for each of the three years in the period ended April 30, 1998, in conformity with generally accepted accounting principles.

/S/ Deloitte & Touche LLP

Kansas City, Missouri
June 16, 1998

COMMON STOCK DATA

	Stock Price		Cash Dividend
	High	Low	Paid per Share
1997 Fiscal Year:			
Quarter ended 7/31/96	36 3/8	23 5/8	.32
Quarter ended 10/31/96	30 1/8	23 5/8	.32
Quarter ended 1/31/97	32 3/4	24 3/4	.20
Quarter ended 4/30/97	33	28 5/8	.20
1998 Fiscal Year:			
Quarter ended 7/31/97	38 1/2	30 5/8	.20
Quarter ended 10/31/97	42 1/4	33 3/4	.20
Quarter ended 1/31/98	45 3/4	37 3/8	.20
Quarter ended 4/30/98	49 1/16	42 7/8	.20

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

Selected Financial Data
In thousands, except per share amounts and number of shareholders

	Year Ended April 30				
	1998	1997	1996	1995	1994
FOR THE YEAR:					
Total revenues	$1,306,785	$1,097,456	$ 871,533	$ 766,323	$ 806,721
Net earnings from continuing operations (1)	$ 174,152	$ 143,777	$ 125,089	$ 97,989	$ 103,052
Net earnings (1)	$ 392,130	$ 47,755	$ 177,168	$ 107,259	$ 200,528
AT YEAR END:					
Total assets	$2,904,083	$1,707,058	$1,755,891	$1,097,313	$1,093,245
Cash, cash equivalents and marketable securities	$1,536,110	$ 539,107	$ 745,693	$ 444,981	$ 620,091
Long-term debt	$ 249,675	--	--	--	--
Stockholders' equity	$1,341,632	$ 999,097	$1,039,593	$ 685,865	$ 707,875
Shares outstanding	106,981	104,067	103,417	104,863	106,149
Number of shareholders	31,177	33,517	35,634	38,053	35,514
MEASUREMENTS:					
Per basic share of common stock:					
Net earnings from continuing operations (1)	$ 1.66	$ 1.38	$ 1.20	$ .93	$ .97
Net earnings (1)	$ 3.74	$ .46	$ 1.70	$ 1.02	$ 1.89
Per diluted share of common stock:					
Net earnings from continuing operations (1)	$ 1.62	$ 1.36	$ 1.18	$ .92	$ .97
Net earnings (1)	$ 3.65	$ .45	$ 1.67	$ 1.01	$ 1.88
Other per share data:					
Cash dividends declared	$ .80	$ 1.04	$ 1.27 1/4	$ 1.21 3/4	$ 1.09
Net tangible book value	$ 9.84	$ 8.88	$ 9.46	$ 5.79	$ 6.03
Return on total revenues (2)	13.3%	13.1%	14.4%	12.8%	15.9%
Return on beginning stockholders' equity	39.2%	4.6%	25.8%	15.2%	30.8%

(1) Fiscal 1994 includes a charge to earnings from continuing operations of $25,072 ($.24 per basic and diluted share) for purchased research and development in connection with the acquisition of MECA Software, Inc. Fiscal 1995 includes a charge to earnings from discontinued operations of $83,508 ($.79 per basic share and $.78 per diluted share) for purchased research and development in connection with a previous acquisition.

(2) Before charge for purchased research and development.

EXHIBIT 21

SUBSIDIARIES OF H&R BLOCK, INC.

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

NAME	JURISDICTION IN WHICH ORGANIZED
H&R Block Group, Inc....................	Delaware (1)
Block Investment Corporation............	Delaware (1)
HRB Management, Inc.....................	Missouri (2)
H&R Block Tax Services, Inc.............	Missouri (2)
H&R Block Eastern Tax Services, Inc.....	Missouri (3)
Bay Colony, Ltd.........................	Virginia (4)
H&R Block of Dallas, Inc................	Texas (3)
HRB Partners, Inc.......................	Delaware (5)
H&R Block and Associates, L.P...........	Delaware (6)
HRB Royalty, Inc........................	Delaware (3)
BWA Advertising, Inc....................	Missouri (3)
H&R Block Canada, Inc...................	Canada (3)
H&R Block (Nova Scotia), Incorporated...	Nova Scotia (7)
Cashplan Systems, Inc...................	British Columbia (7)
Two Dog Ranch Ltd.......................	British Columbia (7)
H&R Block (Guam), Inc...................	Guam (3)
H&R Block Limited.......................	New South Wales (8)
H&R Block The Income Tax People Limited.	New Zealand (3)
Block Financial Corporation.............	Delaware (2)
Franchise Partner, Inc..................	Nevada (9)
HRB Investments, Inc....................	Delaware (9)
H&R Block Insurance Services, Inc.......	Delaware (9)
HRB Financial Services, Inc.............	Delaware (9)
WebBank Corporation.....................	Utah (9)
MECA Sub - LFOD, Ltd....................	New Hampshire (9)
Companion Mortgage Corporation..........	Delaware (9)
Block Mortgage Finance, Inc.............	Delaware (10)
Option One Mortgage Corporation.........	California (9)
Option One Mortgage Acceptance Corporation..........................	Delaware (11)
Premier Trust Deed Services, Inc........	California (11)
Premier Mortgage Services of Washington, Inc..............................	Washington (12)
H&R Block Home Loans, Inc...............	California (11)
H&R Block Home Loans, Inc...............	Ontario (11)
H&R Block Mortgage Company, L.L.C.......	Virginia (13)
H&R Block Mortgage Company, Inc.........	Delaware (3)
HRB Business Services, Inc..............	Delaware (2)
DMJK Business Services, Inc.............	Missouri (14)
Access Technology, Inc..................	Massachusetts (15)
Companion Insurance, Ltd................	Bermuda (15)
H&R Block Tax and Financial Services Limited...............................	United Kingdom (15)
PM Industries, Inc......................	Kansas (15)
NCS Mortgage Services, L.L.C............	Georgia (16)
National Consumer Services, Corp.II, L.L.C.......................	Georgia (16)

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

(1) Wholly owned subsidiary of H&R Block, Inc.
(2) Wholly owned subsidiary of H&R Block Group, Inc.

(3) Wholly owned subsidiary of H&R Block Tax Services, Inc.
(4) Wholly owned subsidiary of H&R Block Eastern Tax Services, Inc.
(5) Wholly owned subsidiary of H&R Block of Dallas, Inc.
(6) Limited partnership in which H&R Block Tax Services, Inc. is a 1% general partner and HRB Partners, Inc. is a 99% limited partner
(7) Wholly owned subsidiary of H&R Block Canada, Inc.
(8) Wholly owned subsidiary of HRB Royalty, Inc.
(9) Wholly owned subsidiary of Block Financial Corporation
(10) Wholly owned subsidiary of Companion Mortgage Corporation
(11) Wholly owned subsidiary of Option One Mortgage Corporation
(12) Wholly owned subsidiary of Premier Trust Deed Services, Inc.
(13) Limited liability company in which H&R Block Tax Services, Inc. has a 99% membership interest and Block Financial Corporation has a 1% membership interest
(14) Wholly owned subsidiary of HRB Business Services, Inc.
(15) Wholly owned subsidiary of HRB Management, Inc.
(16) Limited liability company in which H&R Block Mortgage Company L.L.C. has a 40% membership interest and non-affiliated individuals having a combined 60% membership interest.

EXHIBIT 23

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in Post-Effective Amendment No. 4 to Registration Statement No. 33-185 of H&R Block, Inc. and subsidiaries (relating to shares of Common Stock issued under the 1984 Long-Term Executive Compensation Plan) on Form S-8, Registration Statement No. 33-33889 of H&R Block, Inc. and subsidiaries (relating to shares of Common Stock issuable under the 1989 Stock Option Plan for Outside Directors) on Form S-8, Registration Statement No. 33-54985 of H&R Block, Inc. and subsidiaries (relating to shares of Common Stock issued under the 1993 Long-Term Executive Compensation Plan) on Form S-8, Registration Statement No. 33-64147 of H&R Block, Inc. and subsidiaries (relating to shares of Delayed Convertible Preferred Stock issuable under the Spry, Inc. 1995 Stock Option Plan) on Form S-8, Registration Statement No. 333-33039 of H&R Block, Inc. and subsidiaries (relating to shares of Common Stock issuable under the Third Stock Option Plan for Seasonal Employees) on Form S-8, and Registration Statement No. 333-42143 of H&R Block, Inc. and subsidiaries (relating to shares of Common Stock issued under the H&R Block Stock Plan for Non-Employee Directors) on Form S-8 of our reports dated June 16, 1998, appearing in and incorporated by reference in this Annual Report on Form 10-K of H&R Block, Inc. and subsidiaries for the year ended April 30, 1998.

/s/Deloitte & Touche LLP

Kansas City, Missouri
July 28, 1998

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THE SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED BALANCE SHEETS AND THE CONSOLIDATED STATEMENTS OF OPERATIONS AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.
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<F1>NET OF TAXES OF $244,424.
<F2>NET OF TAX BENEFIT OF ($53,421).
<F3>NET OF TAXES OF $35,757.
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