Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

(Mark One)
☑ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended: April 30, 2004

OR

o **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, including zip code)

(816) 753-6900

(Registrant's telephone number, including area code)

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

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, without par value Pacific Exchange	New York 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 ☑ No o

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. o

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes ☑ No o

The aggregate market value of the registrant's Common Stock (all voting stock) held by non-affiliates of the registrant, computed by reference to the price at which the stock was sold on October 31, 2003, was $8,416,026,893.

Number of shares of registrant's Common Stock, without par value, outstanding on June 1, 2004: 168,292,888.

DOCUMENTS INCORPORATED BY REFERENCE

The definitive proxy statement relating to the registrant's Annual Meeting of Shareholders, to be held September 8, 2004, is incorporated by reference in Part III to the extent described therein.

H&R BLOCK, INC.

2004 FORM 10-K AND ANNUAL REPORT

TABLE OF CONTENTS

PART I

	Introduction and Forward Looking Statements	1
Item 1.	Business	1
	General Development of Business	1

	Description of the Business	1
	U.S. Tax Operations	1
	Mortgage Operations	5
	Business Services	7
	Investment Services	8
	International Tax Operations	9
	Service Marks, Trademarks and Patents	10
	Employees	10
	Risk Factors	10
	Availability of Reports and Other Information	11
Item 2.	Properties	11
Item 3.	Legal Proceedings	11
Item 4.	Submission of Matters to a Vote of Security Holders	13
	PART II	
Item 5.	Market for the Company's Common Stock, Related Stockholder Matters and Issuer Purchases of Equity Securities	13
Item 6.	Selected Financial Data	13
Item 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations	14
Item 7a.	Quantitative and Qualitative Disclosures About Market Risk	32
Item 8.	Financial Statements and Supplementary Data	34
Item 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	66
Item 9a.	Controls and Procedures	66
	PART III	
Item 10.	Directors and Executive Officers of the Company	66
Item 11.	Executive Compensation	68
Item 12.	Security Ownership of Certain Beneficial Owners and Management	68
Item 13.	Certain Relationships and Related Transactions	68
Item 14.	Principal Accounting Fees and Services	68
	PART IV	
Item 15.	Exhibits, Financial Statement Schedules and Reports on Form 8-K	69
	Signatures	70
	Exhibit Index	71

Amended and Restated Bylaws
Employment Agreement for Nicholas J. Spaeth
Severance and Release Agreement for James Ingraham
Termination Agreement of Jeffrey G. Brandmaier
Computation of Ratio of Earnings to Fixed Charges
Subsidiaries of the Company
Consent of KPMG LLP
Consent of PricewaterhouseCoopers LLP
302 Certification of Chief Executive Officer
302 Certification of Principal Accounting Officer
906 Certification of Chief Executive Officer
906 Certification of Principal Accounting Officer

INTRODUCTION AND FORWARD LOOKING STATEMENTS
This year we have chosen to combine our Annual Report on Form 10-K, which we are required to file annually with the Securities and Exchange Commission (“SEC”), and our Annual Report to Shareholders. Certain portions of our Annual Report to Shareholders, including our consolidated financial statements and Management’s Discussion and Analysis of Financial Condition and Results of Operations, have historically been filed as exhibits to the Form 10-K. We hope that by including all of this information in one document, you will find this year’s Annual Report more useful and informative.

Specified portions of our proxy statement, which will be filed in July 2004, are listed as “incorporated by reference” in response to certain items. Our proxy statement will be printed within our Annual Report and mailed to shareholders in July 2004 and will also be available on our website at *www.hrblock.com*.

In this report, and from time to time throughout the year, we share our expectations for the Company’s future performance. These forward-looking statements are based upon current information, expectations, estimates and projections regarding the Company, the industries and markets in which we operate, and our assumptions and beliefs at that time. These statements speak only as of the date on which they are made, are not guarantees of future performance, and involve certain risks, uncertainties and assumptions, which are difficult to predict. Therefore, actual outcomes and results could materially differ from what is expressed, implied or forecast in these forward-looking statements. Words such as “believe,” “will,” “plan,” “expect,” “intend,” “estimate,” “approximate,” and similar expressions may identify such forward-looking statements.

PART I

ITEM 1. BUSINESS

General Development of Business

H&R Block is a diversified company delivering tax products and services and financial advice, investment and mortgage products and services, and business and consulting services. For nearly 50 years, we have been developing relationships with millions of tax clients and our strategy is to expand on these relationships. Our tax services segments provide income tax return preparation services, electronic filing services and other services and products related to income tax return preparation to the general public in the United States, and also in Canada, Australia and the United Kingdom. We also offer investment services and securities products through H&R Block Financial Advisors, Inc. (“HRBFA”). Our mortgage services segment offers a full range of home mortgage products and services through Option One Mortgage Corporation (“OOMC”) and H&R Block Mortgage Corporation (“HRBMC”). RSM McGladrey Business Services, Inc. (“RSM”) is a national accounting, tax and consulting firm primarily serving mid-sized businesses.

H&R BLOCK’S MISSION

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

H&R BLOCK’S VISION

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

Key to achieving our mission and vision is the enhancement of client experiences through consistent delivery of valuable services and advice. Operating through multiple lines of business allows us to better meet the changing financial needs of our customers. Developments during fiscal year 2004 within our operating segments are described below in “Description of Business.”

H&R Block, Inc. was organized as a corporation in 1955 under the laws of the State of Missouri, and is a holding company with operating subsidiaries providing tax and financial products and services to the general public. “H&R Block,” “the Company,” “we,” “our” and “us” are used interchangeably to refer to H&R Block, Inc. or to H&R Block, Inc. and its subsidiaries, as appropriate to the context.

Recent Developments. We continue to believe share repurchase is one of the best ways we return value to our shareholders. On June 9, 2004, the Board of Directors approved the repurchase of an additional 15 million shares. On June 11, 2003, the Board of Directors approved the repurchase of 20 million shares and we repurchased 10.6 million shares during fiscal year 2004.

During fiscal year 2004, we began operating former major franchise territories as company-owned tax operations, as discussed further below in “Description of Business” and in Item 7.

Financial Information About Industry Segments

See discussion below and in Item 8, note 21 to our consolidated financial statements.

Description of Business

U.S. Tax Operations

General. Our U.S. Tax Operations segment is primarily engaged in providing tax return preparation, filing and related services and products in the United States. Revenues include fees earned for tax-related services performed at company-owned retail tax offices, royalties from franchise retail tax offices, sales of Peace of Mind (“POM”) guarantees, sales of tax preparation and other software, fees from online tax preparation, and fees related to refund anticipation loans (“RALs”). Segment revenues constituted 50% of our consolidated revenues for fiscal years 2004 and 2003, and 56% for fiscal year 2002.

Retail income tax return preparation and related services is our original business. These services are provided by tax professionals via a system of retail offices operated directly by us or by franchisees. In addition to our retail offices, we offer a number of digital tax preparation alternatives.

TaxCut® from H&R Block enables do-it-yourself users to prepare their federal and state tax returns easily and accurately. Our software products may be purchased through third-party retail stores, direct mail or online.

Clients also have many online options: multiple versions of do-it-yourself tax preparation, professional tax review, tax advice and tax preparation through a tax professional, whereby the client completes a tax organizer and sends it to a tax professional for preparation and/or signature.

By offering professional and do-it-yourself tax preparation options through multiple channels, we can serve our clients in the manner in which they choose to be served.

We also offer clients a number of options for receiving their income tax refund, including a check directly from the Internal Revenue Service ("IRS"), an electronic deposit directly to their bank account, a refund anticipation check or a RAL.

Block Advantage. When clients have tax returns prepared by our tax professionals or online, they also receive a Block Advantage report and consultation, which provides free, personalized tax and financial-related information and guidance for use throughout the year. This report also includes a summary of their tax return. The service helps identify opportunities for clients to potentially minimize tax liability, maximize tax refunds, take advantage of new savings created by tax law changes, and, in some cases, take advantage of government and other programs that may help the client's financial situation.

Peace of Mind Guarantee. The POM guarantee is offered to tax clients, whereby we will assume the cost, subject to certain limits, of additional taxes owed by a client resulting from errors attributable to one of our tax professionals. The POM program has a per client cumulative limit of $5,000 in additional taxes assessed with respect to the federal, state and local tax returns we prepare for the taxable year covered by the program. There is an additional charge for the POM guarantee, except at H&R Block Premium offices.

RALs. RALs are offered to our tax clients by a designated bank through a contractual relationship with Household Tax Masters, Inc. ("Household"). An eligible electronic filing client may apply for a RAL at one of our offices. After meeting certain eligibility criteria, clients are offered the opportunity to apply for a loan from Imperial Capital Bank ("Imperial") in amounts up to $7,000 based upon their anticipated federal income tax refund. We simultaneously transmit the income tax return information to the IRS and the lending bank. Within a few days or less after the filing date, the client receives a check in the amount of the loan, less the bank's transaction fee, our tax return preparation fee, a system administration fee, if applicable, and/or other fees for client-selected services. Additionally, qualifying electronic filing clients are eligible to receive their RAL proceeds, less applicable fees, in approximately one hour after electronic filing under a product known as Instant Money. For a RAL to be repaid, the IRS directly deposits the participating client's federal income tax refund into a designated account at the lending bank. See related discussion of RAL participations below.

Software and online clients may obtain an Electronic Refund Advance ("ERA"). ERAs are also loan products, through Imperial, that allow a client to have a RAL deposited directly into his or her bank account, usually within two days after the IRS accepts the taxpayer's electronically filed return.

RACs. Refund Anticipation Checks ("RACs") are offered to clients who may not wish to obtain a RAL or do not qualify for the RAL program, but who would like to either (i) receive their refund faster and do not have a bank account for the IRS to direct deposit their refund or (ii) have their tax preparation fees paid directly out of their refund. With a RAC, the IRS directly deposits the client's refund into an account set up by the lending bank within approximately three weeks after the tax return is electronically filed. A check is then issued to the taxpayer in the amount of the refund, less the bank's transaction fee and our tax return preparation fee, a system administration fee as applicable, and/or other fees for client-selected services. A RAC is not a loan, but allows our clients to receive their refund faster and allows their tax preparation fees to be paid directly out of their refund.

Additionally, digital tax clients can use a RAC so their federal, state and electronic filing fees can be paid directly out of their refund.

Other Services and Products. We also offer the following services and products:

- If one of our tax professionals makes an error in preparing a client's tax return or if our online service or TaxCut software causes an error that results in the assessment of any interest or penalties on additional taxes due, we guarantee payment of the interest and penalties, but not the additional taxes, under our standard guarantee.
- Beginning in fiscal year 2004, if due to our error on a return the client is entitled to a larger refund or smaller tax liability than what we calculated, we will refund the tax preparation fee for that return, when claimed within the calendar year, under our maximum refund guarantee.
- Our Double Check Challenge encourages taxpayers to bring previously filed returns, which were not prepared by us, to one of our offices for review at no charge. One of our tax professionals reviews the returns to determine if the taxpayer should file an amended return for a tax refund which otherwise would have been lost due to overlooked credits or deductions or other reasons.
- Electronic filing reduces the amount of time required for a taxpayer to receive a federal tax refund and provides additional assurance to the client the return is mathematically accurate.
- Individual retirement accounts (**"Express IRAs"**), invested in FDIC-insured money market accounts, are offered to tax clients as a tax savings strategy and as a retirement savings tool. HRBFA acts as custodian on the accounts, with the funds being invested at insured depository institutions paying competitive money market interest rates.
- **"EasyPay"** revolving loans are offered by Imperial through a contractual relationship with Household to clients whose tax returns reflect a balance due to the IRS. The loan has "same as cash" terms for approximately 90 days.
- We offer income tax return preparation courses to the public, which teach taxpayers how to prepare income tax returns and provide us with a source of trained tax professionals.

Online Tax Preparation. We offer a comprehensive range of tax products and services, from tax advice to complete professional and do-it-yourself tax return preparation and electronic filing, through our website at *www.hrblock.com* and *www.taxcut.com*. Our branded websites and partner sites provide clients the ability to purchase digital tax services and products. These products and services allow them to prepare their Federal and state income tax returns using the Online Tax Program ("OTP"), access tax tips, advice and tax-related news and use calculators for tax planning.

In addition to the standard OTP, we offer several other online tax products and services, including Online drop-off, OTP Premium, OTP Signature and OTP Young Adult, as well as Ask a Tax Advisor. We also offer our online and software customers ERAs as discussed above under "RALs."

Beginning with the fiscal year 2003 tax season, we participated in the newly formed Free File Alliance. This alliance was created by the tax return preparation industry and the IRS, and allows qualified lower-income filers to prepare and file their federal return online at no charge.

Software Products. We develop and market TaxCut income tax preparation software, H&R Block DeductionPro^{TM}, Kiplinger’s Home and Business Attorney and Kiplinger’s WILLPower^{SM} software products.

TaxCut Standard Edition offers a simple step-by-step tax preparation interview, data imports from money management software and tax preparation software, calculations, completion of the appropriate tax forms, checking for errors and, for an additional charge, electronic filing.

TaxCut EZ Edition offers a simple step-by-step tax interview, data imports from money management software and tax preparation software for taxpayers qualified to file 1040EZ forms and, for an additional charge, electronic filing.

The TaxCut Deluxe Edition offers all the features in the Standard edition plus video tax advice from the experts at H&R Block and Kiplinger Personal Finance magazine, access to IRS publications, a tax and financial planning library, one free TaxCut state program after mail-in rebate and free electronic filing after mail-in rebate.

The TaxCut Premium Edition offers all the features in the Deluxe Edition, plus access to free live professional tax advice from an H&R Block tax professional after mail-in-rebate (through H&R Block’s Ask a Tax Advisor service) and a number of additional features to help users address more complex tax situations.

The TaxCut Premium for Home & Business Edition offers users all the features included in the Premium Edition, plus an additional program to help business owners complete their Federal business returns.

H&R Block DeductionPro helps taxpayers track and accurately value their charitable deductions by providing fair-market valuations for hundreds of commonly donated household goods.

Clients Served. We, together with our franchisees, served approximately 19.2 million clients in the United States during fiscal year 2004, compared to 19.4 million in fiscal year 2003 and 19.5 million in fiscal year 2002. “Clients served” includes taxpayers for whom we prepared income tax returns in offices, federal software units sold, online completed and paid federal returns and paid online state returns when no federal return was purchased, as well as taxpayers for whom we provided only paid electronic filing services. Returns for our clients constituted 15.6% of an IRS estimate of total individual income tax returns filed as of April 30, 2004, compared to 15.9% in fiscal year 2003 and 15.6% in fiscal year 2002.

Owned and Franchised Offices. All offices are open during the tax season. During the rest of the year, only a limited number of offices are open, but H&R Block personnel are available by telephone to provide service to clients throughout the entire year. A summary of our company-owned and franchise offices is as follows:

April 30,	**2004**	2003	2002
Company-owned offices	**4,746**	4,672	4,417
Former major franchise territories(1)	**459**	—	—
Company-owned shared locations(2)	**947**	607	600
Total company-owned offices	**6,152**	5,279	5,017
Franchise offices	**3,374**	3,398	3,373
Former major franchise territories(1)	**—**	529	524
Franchise shared locations(2)	**325**	95	101
Total franchise offices	**3,699**	4,022	3,998
Total offices	**9,851**	9,301	9,015

(1) Impact of company-owned offices in former major franchise territories that commenced operations during fiscal year 2004.

(2) Shared locations include offices located within Wal-Mart, Sears or other third-party businesses.

In addition to our regular offices, we offer tax return preparation services and products at H&R Block Premium offices in the United States. Appealing to taxpayers with more complex returns, H&R Block Premium stresses the convenience of appointments, year-round tax service from the same tax professional and private office interviews. The number of H&R Block Premium offices in fiscal year 2004 was 405, compared to 427 and 446 in fiscal years 2003 and 2002, respectively. In fiscal year 2004, the number of H&R Block Premium clients was 455,000 compared to 504,000 and 559,000 for fiscal years 2003 and 2002, respectively.

Offices in shared locations include 742 offices in Sears stores operated as “H&R Block at Sears” and 553 offices operated in Wal-Mart stores. We are a party to license agreements with both Sears and Wal-Mart relating to the operation in these locations throughout the United States. The Sears license agreement expires on December 31, 2004 and the Wal-Mart agreement expires on May 30, 2005, both subject to termination rights.

We have primarily granted two types of franchises — franchises, formerly called “satellite” franchises, and major franchises. Our franchise arrangements provide us with certain rights designed to protect our brand; however, these arrangements do not provide us with the right to make significant decisions regarding franchise activities or control over the day-to-day operations of the franchise.

Major franchisees cover larger cities and counties and provide for payment of franchise royalties based upon a percentage of gross revenues of their offices. At the end of fiscal year 2004, we only have one remaining major franchisee. Under the agreements, we granted to each franchisee the right to use the name “H&R Block” and provided a policy and procedure manual and other supervisory services. We offer to sell furniture, signs, advertising materials, office equipment and supplies to major franchisees. Each major franchisee selects and trains the employees for its office or offices. Since March 1993, HRB Royalty, Inc. has been the franchisor under the major franchise agreements.

We have also granted other franchises in smaller localities. These franchisees receive signs, designated equipment, specialized forms, local advertising, initial training, and supervisory services, and consequently, pay us a higher percentage of gross tax return preparation and related service revenues as a franchise royalty than do major franchisees. Many of our franchises are located in cities with populations of 15,000 or less. Some major franchisees also grant franchises to sub-franchisees in their respective areas. Of the total 3,699 franchise offices in fiscal year 2004, 304 were operated by major franchisees, 230 were operated by franchisees of major franchisees and 3,165 were operated by other franchisees.

It has always been our policy to grant tax return preparation franchises to qualified persons without an initial franchise fee, although we do require a deposit to secure compliance with franchise contracts.

From time to time, we have acquired the territories of existing franchisees and other tax return preparation businesses, and will continue to do so if future conditions warrant and satisfactory terms can be negotiated.

During fiscal year 2000, we placed most of our major franchises on notice that we would not be renewing their respective franchise agreements as of the next renewal date. The related major franchise agreements accordingly expired in fiscal year 2004, and we began operating the tax preparation businesses as company-owned operations in the former major franchise territories. The major franchise agreements required us to pay the franchisee a “fair and equitable price” for the franchise business. During fiscal year 2004, we made payments of $243.2 million related to the acquisition of assets and stock in the franchise territories of ten of our former major franchisees. Two former major franchises entered into new franchise agreements. One franchisee is continuing litigation

challenging the post-expiration restrictive covenants and also disputing the payment due under the franchise agreement terms.

RAL Participations and 2003 Tax Season Waiver. Since July 1996, we have been a party to agreements with Household and others to participate in RALs provided by a lending bank to H&R Block tax clients. The 1996 agreement was amended and restated in January 2003 and again in June 2003. In the June 2003 agreement, we obtained the right to purchase a 49.9% participation interest in RALs obtained through company-owned offices and a 25% interest in RALs obtained through major franchise offices. The current agreement continues through June 2006. Our purchases of the participation interests are financed through short-term borrowings, and we bear all of the credit risk associated with our interests in the RALs. Revenue from our participation is calculated as the rate of participation multiplied by the fee paid by the borrower to the lending bank. During fiscal year 2002, we participated in RALs in substantially the same manner as the current year. Our RAL participation revenue was $168.4 in fiscal year 2004 and $160.0 million in fiscal year 2002.

In January 2003, we entered into an agreement with Household, whereby we waived our right to purchase any participation interests in and to receive fees related to RALs during the period January 1 through April 30, 2003. In consideration for waiving these rights, we received a series of payments from Household, subject to certain adjustments based on delinquency rates for the 2003 tax season. We recorded revenues totaling $138.2 million during fiscal year 2003. The initial payments were recognized as revenue over the waiver period. We recorded an additional $6.5 million in revenues in fiscal year 2004. The waiver agreement only covered the 2003 tax season.

Seasonality of Business. Because most of our clients file their tax returns during the period from January through April of each year, substantially all of our revenues from income tax return preparation and related services and products are received during this period. As a result, our tax segment generally operates at a loss through the first two quarters of the fiscal year. Historically, these losses primarily reflect wages of year-round personnel, training of tax professionals, rental and furnishing of retail tax offices, and other costs and expenses relating to preparation for the upcoming tax season. Additionally, the tax business is affected by national economic conditions and unemployment rates.

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 offering 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 RAL services to the public. Commercial tax return preparers and electronic filers are highly competitive with regard to price, service and reputation for quality. In terms of the number of offices and personal tax returns prepared in offices, online and via our software, we are the largest company providing direct tax return preparation in the United States. We are also, in terms of the number of offices and tax returns electronically filed in fiscal year 2004, the largest provider of electronic filing services in the United States.

The Digital Tax Solutions businesses compete with a number of companies. Intuit, Inc. is the dominant supplier of tax preparation software and is also our primary competitor in the online tax preparation market. There are many smaller competitors in the online market, as well as free state sponsored online filing programs.

Government Regulation. Primary efforts toward the regulation of commercial tax return 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 all tax returns prepared for three years. Federal laws also subject income tax return preparers to accuracy-related penalties in connection with the preparation of income tax returns. Preparers may be prohibited from further acting as income tax return preparers if they 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. In addition, the Gramm-Leach-Bliley Act and Federal Trade Commission regulations adopted thereunder require income tax preparers to adopt and disclose consumer privacy policies, and provide consumers a reasonable opportunity to “opt out” of having personal information disclosed to unaffiliated third parties for marketing purposes. Some states have adopted or proposed strict “opt-in” requirements in connection with use or disclosure of consumer information.

We believe the federal legislation regulating commercial tax return preparers and consumer privacy 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 our business. However, we 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 requiring individuals and businesses to 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. States that have adopted electronic filing programs for state income tax returns have also enacted laws regulating electronic filers and the advertising and offering of electronic filing services.

Federal statutes and regulations also regulate an electronic filer’s involvement in RALs. Electronic filers must clearly explain the RAL is a loan and not a substitute for or a quicker way of receiving an income tax refund. Federal laws place restrictions on the fees an electronic filer may charge in connection with RALs. In addition, some states and localities have enacted laws and adopted regulations for RAL facilitators and/or the advertisement and offering of RALs. There are also many states that have statutes regulating, through licensing and other requirements, the activities of brokering loans, providing credit services and offering “credit repair” services to consumers for a fee (“Loan Activity Statutes”). We believe the procedures under which we facilitate RALs are structured so our activities are not included within the scope of the activities regulated by these Loan Activity Statutes. There can be no assurances, however, that states with these Loan Activity Statutes will not contend successfully that these statutes apply to the RAL business and that we will need to become licensed under the Loan Activity Statutes, otherwise comply with statutory requirements, or modify procedures so that the Loan Activity Statutes are inapplicable.

Many states have statutes requiring the licensing of persons offering contracts of insurance. We have received from certain state insurance regulators inquiries about our POM guarantee program and the applicability of the state insurance statutes. In states where the inquiries are closed, the regulators affirmed our position that the POM guarantee is not a contract of insurance and is therefore not subject to state insurance licensing laws. In the few states where inquiries are pending, we believe there are no insurance laws under which the POM guarantee constitutes a contract of insurance. There can be no assurances, however, that the product, or other similar products we may offer in the future, will not be scrutinized as potential insurance products and held to be subject to various insurance laws and regulations.

Many of our income tax courses are regulated and licensed in select states. Failure to obtain a tax school license could affect our revenues and limit our

ability to develop interest in tax preparation as a career or obtain qualified tax professionals.

We believe the federal, state and local laws and legislation regulating electronic filing, RALs and the facilitation of RALs, loan brokers, credit services, credit repair services, insurance products, and proprietary schools have not, and will not in the future, have a material adverse effect on our operations. We cannot predict, however, what the effect may be of the enactment of new statutes or the adoption of new regulations pertaining to these matters.

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 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 our business. We cannot predict, however, the effect of applicable statutes or regulations that may be enacted or adopted in the future.

See discussion in "Risk Factors" for additional information.

Mortgage Operations

General. Our Mortgage Operations segment originates mortgage loans, services non-prime loans and sells and securitizes mortgage loans and residual interests in the United States. Revenues consist of proceeds from sales and securitizations of mortgage assets, accretion on residual and beneficial interests, servicing fee income and interest received on loans. Segment revenues constituted 31% of our consolidated revenues for fiscal years 2004 and 2003, and 21% for fiscal year 2002.

Prime mortgages are those that may be offered through government sponsored loan agencies. Non-prime mortgages are those that may not be offered through government-sponsored loan agencies and typically involve borrowers with impaired credit. Even though these borrowers have impaired credit, they also tend to have equity in the property that will be used to secure the loan. We offer both types of loans and conduct business through four channels:

- Option One's wholesale origination channel works with brokers throughout the United States to fund mortgage loans through a national branch network. Wholesale originations represent the majority of Option One's total loan production.
- Option One's national accounts channel forms partnerships with financial institutions, including national and regional banks, to allow them to offer non-prime loans.
- Option One's bulk acquisitions channel specializes in the purchase of performing non-prime mortgage loan pools.
- HRBMC originates residential mortgage loans directly to retail consumers.

The following table details our originations by channel for fiscal years 2004, 2003 and 2002:

(in 000s)

	2004	2003	2002
Wholesale	**$16,828,138**	$11,434,138	$ 8,078,192
National accounts	**2,642,944**	1,814,092	1,219,080
Bulk acquisitions	**679,910**	411,013	160,059
Retail	**3,105,021**	2,918,378	1,995,842
	$23,256,013	$16,577,621	$11,453,173

Option One. Option One, headquartered in Irvine, California, operates in 49 states by serving more than 32,500 mortgage brokers and through its network of 33 wholesale loan production branches and six national accounts branches.

Loan Origination. We originated $20.2 billion in non-prime mortgage loans in fiscal year 2004, compared to $13.7 billion in fiscal year 2003 and $9.5 billion in fiscal year 2002. The average non-prime loan during fiscal year 2004 had a $155,000 principal balance, compared to $146,000 in fiscal year 2003 and $127,000 in fiscal year 2002, and was secured by a first lien on a single-family residence. The weighted-average loan-to-value ratio was 78.1%, 78.7% and 78.6% in fiscal years 2004, 2003 and 2002, respectively.

Wholesale loan originations involve an independent broker who assists the borrower in completing the loan application, gathering necessary information and identifying a lender who offers a loan product best suited to the borrower's financial needs. Brokers are free to submit an application to one or more non-prime lenders, such as Option One. No one broker originates more than 1.2% of our total non-prime production.

Each applicant completes an application, which includes information regarding his or her assets, liabilities, income, credit history, employment history and personal information. We require a credit report on each applicant from an industry recognized credit reporting company. In evaluating an applicant's credit history, we utilize credit bureau risk scores, generally known as a FICO score, which is a statistical ranking of likely future credit performance developed by Fair, Isaac & Company and provided by the three national credit data repositories. Our weighted average FICO score on our non-prime production was 608 and 604 for the years ended April 30, 2004 and 2003, respectively. Qualified independent appraisers are required to appraise mortgaged properties that are used to secure mortgage loans.

Upon receipt of an application from a broker, a credit report and an appraisal report, one of our branch offices processes and underwrites the loan. Our underwriting guidelines require mortgage loans be underwritten in a standardized procedure that complies with federal and state laws and regulations. The guidelines are primarily intended to assess the value of the mortgaged property, evaluate the adequacy of the property as collateral for the mortgage loan, and assess the creditworthiness of the related borrower. Based upon this assessment, we advise the broker whether the loan application meets our underwriting guidelines and product description by issuing a loan approval or denial. In some cases, we issue a "conditional approval," which requires the submission of additional information or clarification. The mortgage loans are underwritten with a view toward resale in the secondary market.

Sale and Securitization of Loans. Substantially all non-prime mortgage loans we originate are sold daily to qualifying special purpose entities ("Trusts"). See discussion of our loan sale and securitization process in Item 7, under the heading "Off-Balance Sheet Financing Arrangements."

Servicing. Mortgage loan servicing involves collecting and remitting mortgage loan payments, making required advances, accounting for principal and interest, holding escrow for payment of taxes and insurance and contacting delinquent borrowers. We receive loan servicing fees monthly over the life of the mortgage loans. We only service non-prime mortgage loans. At the end of fiscal year 2004, we serviced 324,364 loans totaling $45.3 billion, compared to 246,463 loans totaling $31.3 billion at April 30, 2003 and 209,594 loans totaling $23.8 billion at April 30, 2002.

The following table summarizes our servicing portfolio by origin and includes related mortgage servicing rights (“MSRs”) and the rate we earn on each type of servicing as of April 30, 2004:

	(dollars in 000s)		
Type of servicing	Principal Balance	**MSR Balance**	**Rate Earned**
Originated	**$36,131,752**	**$112,800**	**0.43%**
Purchased	**353,576**	**1,021**	**0.50%**
Sub-servicing	**8,782,775**	**–**	**0.30%**
Total	**$45,268,103**	**$113,821**	**0.41%**

When non-prime loans are subsequently sold or securitized, we generally retain the right to service the loans. The resulting MSR assets are recorded at allocated carrying amounts based on relative fair values when the loans are sold. The fair values of MSRs are determined based on the present value of estimated future cash flows related to servicing loans. Assumptions used in estimating the value of MSRs are discussed in Item 7, under “Critical Accounting Policies.” In addition to servicing loans we originate, we also service non-prime loans originated by other lenders. MSRs are recorded only in conjunction with our originated or purchased loan servicing portfolio.

Geographic Distribution. The following table details the percent of origination volume of our non-prime loans for fiscal year 2004 and our loan origination branches by state.

State	Percent of Volume	**Number of Branches**
California	18.8%	5
New York	14.4%	2
Massachusetts	10.2%	0
Florida	6.4%	4
New Jersey	5.1%	1
Texas	4.5%	3
Illinois	3.6%	3
Virginia	2.9%	2
Connecticut	2.6%	1
Pennsylvania	2.6%	1
Michigan	2.3%	1
Georgia	2.2%	2
Colorado	2.1%	1
Rhode Island	2.0%	2
Ohio	1.9%	2
North Carolina	1.7%	1
Arizona	1.5%	2
New Hampshire	1.3%	1
Washington	1.3%	1
Nevada	1.0%	1
Wisconsin	.8%	1
Other	10.8%	0

H&R Block Mortgage Corporation. HRBMC, a wholly-owned subsidiary of Option One, is a retail mortgage lender for prime, non-prime and government loans and is licensed to conduct business in all 50 states. HRBMC is an approved seller/servicer for Fannie Mae and Freddie Mac and is HUD authorized to originate and underwrite FHA and VA mortgage loans. Through HRBMC, we originated retail mortgage loans from various sales channels, including 41 loan production offices and nine regional offices in 26 states in fiscal year 2004. During fiscal year 2004, approximately 49% of HRBMC’s loans were made to clients of our other affiliates compared to 54% in fiscal year 2003.

We originated $3.1 billion in retail mortgage loans in fiscal year 2004, compared to $2.9 billion in fiscal year 2003 and $2.0 billion in fiscal year 2002. In fiscal year 2004, we originated $1.3 billion in prime loans and $1.8 billion in non-prime loans.

Substantially all of our retail prime mortgage loans are sold to Countrywide Home Loans, Inc. (“Countrywide”). The majority of mortgage loans sold to Countrywide are underwritten through an automated system under which Countrywide assumes our representations and warranties, which comply with Countrywide’s underwriting guidelines. This agreement allows us to achieve improved execution due to price, efficiencies in delivery, and elimination of redundancies in operations. We do not retain servicing rights related to the prime mortgage loans we sell. Non-prime mortgage loans are sold to Option One. See discussion of our prime warehouse line in Item 7, under “Capital Resources and Liquidity by Segment.”

Competitive Conditions. Both the prime and non-prime sectors of the residential mortgage loan market are highly competitive. The principal methods of competition are in service, product differentiation and price. There are a substantial number of companies competing in the residential loan market, including mortgage banking companies, commercial banks, savings associations, credit unions and other financial institutions. There are also numerous companies competing in the business of servicing non-prime loans. No one firm is a dominant supplier of prime and non-prime mortgage loans or a dominant servicer of non-prime loans. We believe we are one of the top originators and servicers of non-prime loans in the industry.

Seasonality of Business. Residential mortgage volume is not subject to significant seasonal fluctuations. The mortgage business is cyclical, however, and directly affected by national economic conditions, trends in business and finance and is impacted by changes in interest rates.

Government Regulation. Mortgage loans purchased, originated and/or serviced are subject to federal laws and regulations, including:

- The federal Truth-in-Lending Act, as amended, and Regulation Z promulgated thereunder;
- The Equal Credit Opportunity Act, as amended, and Regulation B promulgated thereunder;
- The Fair Credit Reporting Act, as amended;
- The federal Real Estate Settlement Procedures Act, as amended, and Regulation X promulgated thereunder;
- The Home Ownership Equity Protection Act (“HOEPA”);
- The Soldiers’ and Sailors’ Civil Relief Act of 1940, as amended;
- The Home Mortgage Disclosure Act and Regulation C promulgated thereunder;
- The federal Fair Housing Act;
- The Gramm-Leach-Bliley Act and regulations adopted thereunder; and
- Certain other laws and regulations.

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 deed to the property, which may impair the underlying collateral.

Applicable state laws generally regulate interest rates and other charges pertaining to non-prime loans. These states also require certain disclosures and require originators of certain mortgage loans to be licensed unless an exemption is available. In addition, most states have other laws, public policies and general principles of equity relating to consumer protection, unfair and deceptive practices, and practices that may apply to the origination, servicing and collection of mortgage loans.

In recent years, there has been a noticeable increase in state, county and municipal statutes, ordinances and regulations that prohibit or regulate so-called “predatory lending” practices. Predatory lending statutes such as HOEPA, regulate “high-cost loans,” which are defined separately by each state, county or municipal statute, regulation or ordinance, but generally include mortgage loans

with interest rates exceeding a (1) specified margin over the Treasury Index for a comparable maturity, or (2) designated percentage of points and fees. Statutes, ordinances and regulations that regulate high-cost loans generally prohibit mortgage lenders from engaging in certain defined practices, or require mortgage lenders to implement certain practices, in connection with any mortgage loans that fit within the definition of a high-cost loan. We believe that we do not originate loans falling under the definition of high-cost loans under any law.

Certain state laws restrict or prohibit prepayment penalties on mortgage loans, and we relied on the federal Alternative Mortgage Transactions Parity Act ("Parity Act") and related rules issued in the past by the Office of Thrift Supervision ("OTS") to preempt state limitations on prepayment penalties. The Parity Act was enacted to extend to financial institutions, other than federally chartered depository institutions, the federal preemption that federally chartered depository institutions enjoy. However, in September 2002, the OTS released a new rule that reduced the scope of the Parity Act preemption effective July 1, 2003 and, as a result, we can no longer rely on the Parity Act to preempt state restrictions on prepayment penalties. The elimination of this federal preemption requires compliance with state restrictions on prepayment penalties. These restrictions prohibit us from charging any prepayment penalty in six states and restrict the amount or duration of prepayment penalties that we may impose in an additional eleven states. This places us at a competitive disadvantage relative to financial institutions that continue to enjoy federal preemption of such state restrictions. Such institutions can charge prepayment penalties without regard to state restrictions and, as a result, may be able to offer loans with interest rate and loan fee structures that are more attractive than the interest rate and loan fee structures that we are able to offer.

See discussion in "Risk Factors" for additional information.

Business Services

General. Our Business Services segment offers middle-market companies accounting, tax and consulting services. We have continued to expand the services we have to offer our clients by adding wealth management, retirement resources, payroll services, corporate finance and financial process outsourcing. Segment revenues constituted 12% of our consolidated revenues for fiscal years 2004 and 2003, and 13% for fiscal year 2002.

This segment consists primarily of RSM, which was formed in August 1999 to acquire substantially all of the non-attest assets of McGladrey & Pullen, LLP ("M&P"). RSM has more than 90 offices in 23 states and offers services in 18 of the top 25 U.S. markets.

Services are also provided by the following wholly-owned subsidiaries:

- RSM McGladrey Retirement Resources administers retirement plans, helps clients design the best plan for their needs, and also provides retirement plan investment advice, year-end compliance, tax reporting and consulting.
- RSM EquiCo, Inc. is an investment banking firm specializing in business valuations, acquisitions and divestitures for private middle-market businesses.
- RSM McGladrey Employer Services, Inc. (formerly known as "MyBenefitSource, Inc.") is a provider of payroll and benefits administration services to middle-market businesses.
- PDI Global, Inc. provides marketing, communications and visibility programs, tax and financial planning guides, and marketing and management consulting services to accountants, consultants, lawyers, banks, insurers, and other financial service providers.

Relationship with McGladrey & Pullen, LLP. By regulation, we cannot provide audit and attest services. M&P, a public accounting firm, provides audit and review services and other services in which M&P issues written reports on client financial statements to their clients. Through an administrative services agreement with M&P, we provide accounting, payroll, human resources and other administrative services to M&P and receive a management fee for these services. M&P is a limited liability partnership with its own governing body and, accordingly, is a separate legal entity and is not an affiliate. Some partners and employees of M&P are also our employees.

Seasonality of Business. Revenues for this segment are largely seasonal in nature, with peak revenues occurring during January through April.

Competitive Conditions. The accounting and consulting business is highly competitive. The principal methods of competition are price, service and reputation for quality. There are a substantial number of accounting firms offering similar services at the international, national, regional and local levels. As our focus is on middle-market businesses, our principal competition is with regional accounting firms. We believe we have a competitive advantage in the geographic areas in which we are currently located based on the breadth of services we can offer to these clients above and beyond what a traditional accounting firm can offer.

Government Regulation. Many of the same federal and state regulations relating to tax preparers and the information concerning tax reform discussed above in the "Government Regulation" section of "U.S. Tax Operations" apply to the Business Services segment as well, except accountants are not subject to the same prohibition on the use or disclosure of certain income tax return information as tax professionals are. Accounting firms are also subject to state and federal regulations governing accountants, auditors and financial planners. Various legislative and regulatory proposals have been made relating to auditor independence and accounting oversight, among others. Some of these proposals, if adopted, could have an impact on RSM's operations. We believe current state and federal regulations and known legislative and regulatory proposals do not and will not have a material adverse effect on our operations, but we cannot predict what the effect of future legislation, regulations and proposals may be.

Independence rules established by the SEC, American Institute of Certified Public Accountants ("AICPA") and the Public Company Accounting Oversight Board ("PCAOB") apply to M&P as a public accounting firm. In applying its auditor independence rules, the SEC views us and M&P as a single entity and requires that we abide by its independence rules for M&P to be deemed independent of any SEC audit client. The SEC regards any financial interest or business relationship we have with a client of M&P as a financial interest or business relationship between M&P and the client for purposes of applying its auditor independence rules.

We and M&P have jointly developed and implemented policies, procedures and controls designed to safeguard M&P's independence and integrity as an audit firm in compliance with applicable regulations and professional responsibilities. These policies, procedures and controls are designed to monitor and prevent violations of applicable independence rules and include, among others, (i) informing our officers, directors and other members of management concerning auditor independence matters, (ii) procedures for monitoring securities ownership, (iii) communicating with SEC audit clients regarding the SEC's interpretation and application of relevant independence rules and guidelines, and (iv) requiring RSM employees to comply with M&P's independence and relationship policies (including M&P's independence compliance questionnaire procedures). We believe these policies, procedures and controls are adequate, although there can be no assurances they will ensure compliance with applicable independence rules and requirements. Any noncompliance could cause M&P to lose the ability to perform audits of financial statements filed with the SEC.

See discussion in "Risk Factors" for additional information.

Investment Services

General. Our Investment Services segment provides brokerage services and investment planning through HRBFA. Products and services offered to our customers include traditional brokerage products, as well as annuities, insurance, fee-based accounts, online account access, equity research and focus lists, model portfolios, asset allocation strategies, and other investment tools and information. Segment revenues constituted approximately 5% of our consolidated revenues for fiscal years 2004 and 2003 and 8% for fiscal year 2002.

HRBFA is a registered broker-dealer with the SEC and is a member of the New York Stock Exchange ("NYSE"), other national securities exchanges, SIPC, and the National Association of Securities Dealers, Inc. ("NASD"). HRBFA is also a registered investment advisor, offering financial advice with traditional products.

Our integration of investment advice with the tax client base allows us to maximize an already established relationship. In the past two years, new product offerings have allowed us to shift our focus from a transaction-based client relationship to a more advice-based focus.

Customer trades in fiscal year 2004 totaled approximately 1.5 million, compared to approximately 1.2 million in fiscal year 2003 and approximately 1.5 million in fiscal year 2002. We had 863,116 active accounts at April 30, 2004, compared to 752,903 at 2003 and 695,355 at 2002. Margin balances decreased to an average of $545.0 million for fiscal year 2004 from $577.0 million and $1.0 billion for fiscal years 2003 and 2002, respectively.

Financial Services Offerings. We provide a full range of financial services to our clients in the United States.

As previously discussed in "U.S. Tax Operations," we offer our tax clients the opportunity to open an Express IRA through HRBFA as a part of the tax return preparation process. Clients funded approximately 215,000 Express IRAs during tax season 2004, approximately 126,000 in tax season 2003 and approximately 130,000 in tax season 2002.

We also offer account holders a service that makes it possible for clients to transact all of their investment activities from one convenient, flexible brokerage account with cash management features. The cash management features include no-minimum checking, unlimited check writing, a credit interest program, a variety of tax-exempt money market fund options, an FDIC insured deposit account, a VISA® Gold ATM/check card with a 1% cash rebate on card purchases and an airline miles program, one consolidated monthly statement and a year-end account summary. HRBFA offers college savings products – called 529 Plans – through state-sponsored investment programs that allow clients to make tax-free withdrawals for qualified education expenses and a comprehensive line of insurance products. Clients may also open professionally managed accounts.

We act as a dealer in fixed income markets including corporate and municipal bonds, various U.S. Government and U.S. Government Agency securities and certificates of deposit.

Financial Advisors and Their Compensation. Our financial advisors receive compensation based on several different factors. They receive commissions from individual customer transactions as well as a percentage of quarterly fees for certain products based on asset levels. In addition, they can receive salaries, draws against commissions and bonuses based on the level of assets they transfer and production achieved.

Key to our future success is retention of our financial advisors and recruitment of new advisors. One of our key initiatives is to build revenues through the addition of financial advisors. During fiscal years 2004 and 2003, we added 255 and 260 advisors, respectively. These additions were offset by attrition of 230 and 487 advisors, respectively. Our overall retention rate for fiscal year 2004 was approximately 77%, but the retention rate for our more experienced, higher-producing advisors was approximately 93%. The retention and recruitment of experienced advisors will continue to be a key initiative in fiscal year 2005.

Advisor productivity by recruitment class is as follows:

(dollars in 000s)

	Revenue Per Advisor	Total Production Revenues
Fiscal year 2004:		
Pre-2003 class	**$216**	**$135,949**
2003 recruits	**84**	**17,717**
2004 recruits	**61**	**7,664**
Fiscal year 2003:		
Pre-2003 class	$135	$126,176
2003 recruits	34	4,604

Licensed Referral Tax Professional Program. The Licensed Referral Tax Professional ("LRTP") program encourages a cooperative relationship between Investment Services and U.S. Tax Operations by helping tax professionals become licensed to sell securities, teaming them with a financial advisor and providing a commission to the LRTP for business referred to Investment Services. The LRTP program began in fiscal year 2003 and, as of April 30, 2004 there were 461 LRTPs with total customer assets of $72 million compared to 126 LRTPs with total customer assets of $2.0 million as of April 30, 2003. We will continue to increase the number of LRTPs in the coming year.

Integrated Online Services. We have an online investment center on our website at *www.hrblock.com*. Online users have the opportunity to open accounts, obtain research, create investment plans, buy and sell securities, and view the status of their accounts. Through April 2004, over 145,000 accounts had been web enabled, compared to approximately 143,000 through April 2003 and April 2002. In fiscal year 2004, 229,211 securities transactions were completed online compared to 126,055 in fiscal year 2003, and 107,308 in fiscal year 2002.

Office Locations. HRBFA is authorized to do business as a broker-dealer in all 50 states and the District of Columbia. At the end of fiscal year 2004, we operated approximately 358 branch offices, compared to approximately 600 offices in fiscal years 2003 and 2002. The reduced number of branch offices is primarily due to the evolution of our tax-partnering program, which now locates financial advisors with tax professionals. Some HRBFA offices offer, in addition to financial products and services, tax preparation and mortgage services year-round to clients.

We believe the existence of retail locations contributes to our growth and client satisfaction. The existence of retail locations generally results in an increase in unsolicited customer transactions in the geographic area near the office. Many clients prefer to conduct business in person in local offices rather than in distant offices or online. Clients may also use retail locations to deliver checks and securities.

Competitive Conditions. HRBFA competes directly with a broad range of companies seeking to attract consumer financial assets, including full-service brokerage firms, discount and online brokerage firms, mutual fund companies, investment banking firms, commercial and savings banks, insurance companies and others. The financial services industry has become considerably more concentrated as numerous securities firms have been acquired by or merged into other firms. Some of these competitors have greater financial resources than HRBFA and offer additional financial products and services. In addition, we expect competition from domestic and international commercial banks and larger securities firms to continue to increase as a result of legislative and regulatory initiatives in the U.S., including the passage of the Gramm-Leach-Bliley Act in November 1999 and the implementation of the U.S.A. Patriot Act in April 2002. These initiatives strive to remove or relieve certain restrictions on mergers between commercial banks and other types of financial services providers and

extend privacy provisions and anti-money laundering procedures across the financial services industry.

Discount brokerage firms and online-only financial services providers compete vigorously with HRBFA with respect to commission charges. Full-commission brokerage firms also offer more product breadth, discounted commissions and online services to selected retail brokerage customers. Additionally, some competitors in both the full-commission and discount brokerage industries have substantially increased their spending on advertising and direct solicitation of customers.

Competition in the online trading business has become similarly intense as recent expansion and customer acceptance of conducting financial transactions online has attracted new brokerage firms to the market.

We compete based on quality of service, breadth of products and services offered, prices, accessibility through delivery channels, technological innovation and expertise and integration with our tax services relationships.

Seasonality of Business. The Investment Services segment does not, as a whole, experience significant seasonal fluctuations. The securities business is cyclical, however, and directly affected by national and global economic and political conditions, trends in business and finance and changes in the conditions of the securities markets in which our clients invest.

Government Regulation. The securities industry is subject to extensive regulation covering all aspects of the securities business, including registration of our offices and personnel, sales methods, the acceptance and execution of customer orders, the handling of customer funds and securities, trading practices, capital structure, record keeping policies and practices, margin lending, execution and settlement of transactions, the conduct of directors, officers and employees, and the supervision of employees. The various governmental authorities and industry self-regulatory organizations that have supervisory and regulatory jurisdiction over us generally have broad enforcement powers to censure, fine, issue cease-and-desist orders or suspend or expel a broker-dealer or any of its officers or employees who violate applicable laws or regulations.

The SEC is the federal agency responsible for the administration of the federal securities laws. The SEC has delegated much of the regulation of broker-dealers to self-regulatory organizations, principally the Municipal Securities Rulemaking Board, NASD, Inc. and the NYSE, which has been designated as HRBFA's primary regulator. These self-regulatory organizations adopt rules, subject to SEC approval, governing the industry and conduct periodic examinations of HRBFA's brokerage operations and clearing activities. Securities firms are also subject to regulation by state securities administrators in states in which they conduct business.

As a registered broker-dealer, HRBFA is subject to the Net Capital Rule (Rule 15c3-1) promulgated by the SEC and adopted through incorporation by reference in NYSE Rule 325. The Rule, which specifies minimum net capital requirements for registered brokers and dealers, is designed to measure the financial soundness and liquidity of a broker-dealer and requires at least a minimum portion of its assets be kept in liquid form. Additional discussion of this requirement and HRBFA's calculation of net capital is located in Item 7, under "Capital Resources and Liquidity by Segment."

See discussion in "Risk Factors" for additional information.

International Tax Operations

General. Our International Tax Operations segment provides tax return preparation, electronic filing and related services to the general public, principally in Canada, Australia and the United Kingdom. We also offer tax preparation of U.S. tax returns and related services in company-owned and franchise offices in nine countries and U.S. Territories. We offer electronic filing of U.S. income tax returns at offices located in Europe, and the electronic filing of Canadian, Australian, and United Kingdom income tax returns at H&R Block offices in their respective countries. Segment revenues constituted approximately 2% of our consolidated revenues for fiscal years 2004, 2003 and 2002.

This segment served 2.3 million taxpayers in each of fiscal years 2004, 2003 and 2002. Returns prepared at 1,334 company-owned and franchised offices in countries outside of the United States in fiscal year 2004 constituted 12.8% of the total returns prepared by H&R Block, compared to 12.4% in fiscal year 2003 and 11.9% in fiscal year 2002. A summary of our company-owned and franchise offices in countries outside the United States is as follows:

April 30,	**2004**	2003	**2002**
Canada	**891**	910	955
Australia	**378**	362	362
Other	**65**	62	59
Total offices	**1,334**	1,334	1,376

Canadian Operations. H&R Block Canada, Inc. ("Block Canada") and its franchisees prepared approximately 1.7 million Canadian regular and discounted returns filed with Revenue Canada in each of fiscal years 2004, 2003 and 2002. Of the 891 offices in Canada in fiscal year 2004, 489 were owned and operated by us and 402 were owned and operated by franchisees. We operated 133 offices in department stores in Canada in fiscal year 2004, including 79 offices in Sears' facilities.

We offer a refund discount ("CashBack") program to our customers in Canada. Canadian law specifies the procedures we must follow in conducting the program. In accordance with current Canadian regulations, if a customer's tax return indicates the customer is entitled to a tax refund, we issue a check to the client. The client assigns to us the full amount of the tax refund to be issued by Revenue Canada and the refund check is then sent by Revenue Canada directly to us. 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 borrowings. The number of returns discounted under the CashBack program in fiscal year 2004 was approximately 552,000, compared to 531,000 in fiscal year 2003 and 525,000 in fiscal year 2002.

During fiscal year 2004, we contracted with Intuit Canada, Inc. to provide online tax preparation services under the H&R Block brand to Canadian consumers. Users could print and mail their return, or download their return and file electronically.

Australian Operations. The number of returns prepared by our company-owned and franchise offices in Australia, was approximately 519,000 in fiscal year 2004, compared to 505,000 in fiscal year 2003 and 489,000 in fiscal year 2002. Of the 378 offices in Australia in fiscal year 2004, 278 were company-owned and 100 were franchise offices.

Seasonality of Business. Revenues in this segment are seasonal in nature with peak revenues occurring during the applicable tax season, as follows:

Canada	January – April
Australia	July – October

Competitive Conditions. The tax return preparation business is highly competitive, with a substantial number of firms offering tax preparation services. Commercial tax return preparers are highly competitive with regard to price,

service and reputation for quality. We believe we operate the largest tax return preparation businesses in Canada and Australia.

Government Regulation. We seek to determine the applicability of all government and self-regulatory organization statutes, ordinances, rules and regulations in the countries in which we operate (collectively, "Foreign Laws") and to comply with these Foreign Laws. We cannot predict what effect the enactment of future Foreign Laws, changes in interpretations of existing Foreign Laws, or the results of future regulator inquiries regarding the applicability of Foreign Laws may have on our segments, any particular subsidiary, or our consolidated financial statements.

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 segment.

See discussion in "Risk Factors" for additional information.

Service Marks, Trademarks and Patents

We have made a practice of selling our products and services under service marks and trademarks and of obtaining protection for these by all available means. Our service marks and trademarks are protected by registration in the United States and other countries where our products and services are marketed. We consider these service marks and trademarks, in the aggregate, to be of material importance to our business, particularly our business segments providing products and services under the "H&R Block" brand.

We have no registered patents that are material to our business.

Employees

We have approximately 15,300 regular full-time employees. The highest number of persons we employed during the fiscal year ended April 30, 2004, including seasonal employees, was approximately 111,300.

Risk Factors

In this report, and from time to time throughout the year, we share our expectations for the Company's future performance. The following explains the critical risk factors impacting our business and reasons actual results may differ from our expectations. This discussion does not intend to be a comprehensive list and there may be other risks and factors that may have an effect on our business.

Liquidity and Capital. We use capital primarily to fund working capital requirements, pay dividends, repurchase our shares and acquire businesses. We are dependent on the use of our off-balance sheet arrangements to fund our daily non-prime originations and the secondary market to securitize and sell mortgage loans and residual interests. See "Off-Balance Sheet Financing Arrangements" in Item 7. We are also dependent on commercial paper issuances to fund RAL participations and seasonal working capital needs. A disruption in such markets could adversely affect our access to these funds. In order to meet our future financing needs we may issue additional debt or equity securities.

Litigation. We are involved in lawsuits in the normal course of our business related to RALs, our Peace of Mind guarantee program, electronic filing of tax returns, Express IRAs, losses incurred by customers in their investment accounts, mortgage lending activities and other matters. Adverse outcomes related to litigation could result in substantial damages and could adversely affect our results of operations. Negative public opinion can also result from our actual or alleged conduct in such claims, possibly damaging our brand and adversely affecting the market price of our stock. See Item 3, "Legal Proceedings" for additional information.

Privacy of Client Information. We manage highly sensitive client information in all of our operating segments, which is regulated by law. Problems with the safeguarding and proper use of this information could result in regulatory actions and negative publicity, which could adversely affect our results of operations.

U.S. Tax Operations

Competitive Position. Increased competition for tax preparation clients in our retail offices, online and software channels could adversely affect our current market share and limit our ability to grow our client base. See clients served statistics included under "U.S. Tax Operations" in Item 7.

Refund Anticipation Loans. Changes in government regulation related to RALs could adversely affect our ability to offer RALs or our ability to purchase participation interests. Changes in IRS practices could adversely affect our ability to utilize the IRS debt indicator to limit our bad debt exposure. Changes in any of these, as well as possible litigation related to RALs, may adversely affect our results of operations.

Mortgage Operations

Competitive Position. The majority of our mortgage loan applications are submitted through a network of brokers who have relationships with many other mortgage lenders. Unfavorable changes in our pricing, service or other factors could result in a decline in our mortgage origination volume. A decline in our service ratings could adversely affect our pricing and origination volume. Increased competition among mortgage lenders can also result in a decline in coupon rates offered to our borrowers, which in turn lowers margins and could adversely affect our gains on sales of mortgage loans. Additionally, changes in legislation relating to our industry can adversely affect our competitive position.

Asset Valuation Assumptions. The valuation of residual interests and mortgage servicing rights includes many estimates and assumptions surrounding interest rates, prepayment speeds and credit losses. If actual experience differs from our estimates, we would be required to record write-ups or write-downs to the related assets, which could either positively or negatively affect our results of operations. See "Critical Accounting Policies" in Item 7.

Legislation and Regulations. Several states and cities are considering or have passed laws, regulations or ordinances aimed at curbing predatory lending and servicing practices. The federal government is also considering legislative and regulatory proposals in this regard. In general, these proposals involve lowering the existing federal HOEPA thresholds for defining a "high-cost" loan and establishing enhanced protections and remedies for borrowers who receive such loans. If unfavorable laws and regulations are passed, it could restrict our ability to originate loans if rating agencies refuse to rate our loans, loan buyers may not want to purchase loans labeled as "high-cost," and it could restrict our ability to sell our loans in the secondary market. Accordingly, all of these items could adversely affect our results of operations.

Business Services

Alternative Practice Structure with M&P. Our relationship with M&P requires us to comply with applicable auditor independence rules and requirements. In addition, our relationship with M&P closely links our RSM McGladrey brand with M&P. If M&P were to encounter problems concerning its independence as a result of its relationship with us or if significant litigation arose concerning M&P or its services, our brand reputation and our ability to realize the mutual benefits of our relationship, such as the ability to attract and retain quality professionals, could be impaired.

Investment Services

Regulatory Environment. The broker-dealer industry has recently come under more scrutiny by both Federal and State regulators and, as a result, more focus has been placed on compliance issues. If we do not comply with these regulations, it could result in regulatory actions and negative publicity, which could adversely affect our results of operations. Negative public opinion about our industry could damage our reputation even if we are in compliance with such regulations.

Integration into the H&R Block Brand. We are working to foster an advice-based relationship with our tax clients through our retail tax office network. This advice-based relationship is key to the integration of Investment Services into the H&R Block brand and deepening our current client relationships. If we are unable to successfully integrate, it may significantly impact our ability to differentiate our business from other tax providers and grow our client base.

Availability of Reports and Other Information

Our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports filed with or furnished to the SEC are available, free of charge, through our website at *www.hrblock.com* as soon as reasonably practicable after such reports are electronically filed with or furnished to the SEC.

Copies of the following corporate governance documents are posted on our website: (1) The Amended and Restated Bylaws of H&R Block, Inc., (2) The H&R Block, Inc. Corporate Governance Guidelines, (3) the H&R Block, Inc. Code of Business Ethics and Conduct, (4) the H&R Block, Inc. Audit Committee Charter, (5) the H&R Block, Inc. Governance and Nominating Committee Charter, and (6) the H&R Block, Inc. Compensation Committee Charter. If you would like a printed copy of any of these corporate governance documents, please send your request to the Office of the Secretary, H&R Block, Inc., 4400 Main Street, Kansas City, Missouri 64111.

Information contained on our website does not constitute any part of this report.

ITEM 2. PROPERTIES

We own our corporate headquarters, which are located in Kansas City, Missouri. We have leased additional office space for corporate, U. S. Tax Operations and Investment Services personnel, as necessary, in Kansas City, Missouri.

Most of our tax offices, except those in retail outlets, are operated under leases throughout the United States.

Option One's executive offices are located in leased offices in Irvine, California. HRBMC is headquartered in leased offices in Lake Forest, California. Option One and HRBMC also lease offices for their loan origination and servicing centers and branch office operations throughout the United States.

The executive offices of HRBFA are located in leased offices in Detroit, Michigan. Branch offices are operated throughout the United States, in a combination of leased and owned facilities.

RSM's executive offices are located in leased offices in Bloomington, Minnesota. Its administrative offices are located in leased offices in Davenport, Iowa. RSM also leases office space throughout the United States.

Our Canadian executive offices are located in a leased office in Calgary, Alberta. Our Canadian tax offices are operated under leases throughout Canada.

We will begin construction of new corporate headquarters during fiscal year 2005, which will allow us to consolidate the majority of our Kansas City-based personnel into one facility. The new building will be located in downtown Kansas City, Missouri.

All current leased and owned facilities are in good repair and adequate to meet our needs.

ITEM 3. LEGAL PROCEEDINGS

The information below should be read in conjunction with the information included in Item 8, note 20 to our consolidated financial statements.

RAL Litigation. We have been named as a defendant in numerous lawsuits throughout the country regarding our refund anticipation loan programs (collectively, "RAL Cases"). Plaintiffs in the RAL Cases have alleged, among other things, that disclosures in the RAL applications were inadequate, misleading and untimely; that the RAL interest rates were usurious and unconscionable; that we did not disclose that we would receive part of the finance charges paid by the customer for such loans; breach of state laws on credit service organizations; breach of contract; unjust enrichment; unfair and deceptive acts or practices; violations of the Racketeer Influenced and Corrupt Organizations act; violations of the Fair Debt Collection Practices Act; and that we owe, and breached, a fiduciary duty to our customers in connection with the RAL program. In many of the RAL Cases, the plaintiffs seek to proceed on behalf of a class of similarly situated RAL customers, and in certain instances the courts have allowed the cases to proceed as class actions. In other cases, courts have held that plaintiffs must pursue their claims on an individual basis, and may not proceed as a class action. The amounts claimed in the RAL Cases have been very substantial in some instances.

We have successfully defended against numerous RAL Cases. Of these RAL Cases, some were dismissed on our motions for dismissal or summary judgment and others were dismissed voluntarily by the plaintiffs after denial of class certification. Other cases were settled, with one settlement resulting in a pretax expense of $43.5 million in fiscal year 2003 (the "Texas RAL Settlement").

We believe we have meritorious defenses to the RAL Cases and we intend to defend the remaining RAL Cases vigorously. We have accrued our best estimate of the probable loss related to the RAL Cases. However, there can be no assurances as to the outcome of the pending RAL Cases individually or in the aggregate, and there can be no assurances regarding the impact of the RAL Cases on our financial statements. The following is updated information regarding the pending RAL Cases that are class actions or putative class actions:

Lynne A. Carnegie, et al. v. Household International, Inc., H&R Block, Inc., et al., (formerly Joel E. Zawikowski, et al. v. Beneficial National Bank, H&R Block,

Inc., Block Financial Corporation, et al.) Case No. 98 C 2178, United States District Court for the Northern District of Illinois, Eastern Division, instituted on April 18, 1998. On April 15, 2003, the District Court judge declined to approve a $25.0 million settlement of this matter, finding that counsel for the settlement plaintiffs had been inadequate representatives of the plaintiff class and failed to sustain their burden of showing that the settlement was fair. The judge subsequently appointed new counsel for the plaintiffs who filed an amended complaint and a motion for partial summary judgment. On March 29, 2004, the court either dismissed or decertified all of the plaintiffs' claims other than part of one count alleging violations of the racketeering and conspiracy provisions of the Racketeer Influenced and Corrupt Organizations act. We intend to continue defending the case vigorously, but there are no assurances as to its outcome.

Sandra J. Basile, et al. v. H&R Block, Inc., et al, April Term 1992 Civil Action No. 3246 in the Court of Common Pleas, First Judicial District of Pennsylvania, Philadelphia County, instituted on April 23, 1993. The court decertified the class on December 31, 2003. Plaintiffs have appealed the decertification.

Levon and Geral Mitchell, et al. v. H&R Block and Ruth R. Wren, Case No. CV-95-2067, in the Circuit Court of Mobile County, Alabama, instituted on June 13, 1995. Plaintiffs' motion for class certification was granted, and defendants have filed a notice of appeal of the certification.

Deandra D. Cummins, et al. v. H&R Block, Inc., et al., Case No. 03-C-134 in the Circuit Court of Kanawha County, West Virginia, instituted on January 22, 2003. Defendants' motions to dismiss and to compel arbitration were heard in part in December 2003, during which the judge discontinued the hearing and ordered the parties to mediation. Mediation occurred in February 2004 during which the parties were unable to reach agreement. Defendants' motion to dismiss and compel arbitration was subsequently denied.

Roy Carbahal, et al. v. Household International, H&R Block Tax Services, Inc. et al., Case No. 00C0626 in the United States District Court for the Northern District of Illinois, instituted on January 31, 2000. Defendants' motion to compel arbitration was granted and the case was dismissed. Plaintiffs appealed such dismissal. On June 24, 2004, the Seventh Circuit Court of Appeals affirmed such dismissal.

Abby Thomas, et al. v. Beneficial National Bank, H&R Block, Inc., et al., Case No. 4:03-CV-00775 GTE in the United States District Court for the Eastern District of Arkansas, Western Division, instituted on August 12, 2003. Defendants moved to dismiss and compel arbitration, and plaintiffs thereafter filed an amended complaint and a motion to remand the case to state court. On December 8, 2003, the federal court denied plaintiffs' motion to remand.

Lynn Becker v. H&R Block, Case No. CV-2004-03-1680 in the Court of Common Pleas, Summit County, Ohio, instituted on April 15, 2004. Plaintiffs filed an amended complaint on May 3, 2004, containing class allegations.

Peace of Mind Litigation. *Lorie J. Marshall, et al. v. H&R Block Tax Services, Inc., et al.*, Civil Action 2002L000004, in the Circuit Court of Madison County, Illinois, is a class action case filed on January 18, 2002, as to which the court granted plaintiffs' first amended motion for class certification on August 27, 2003. Plaintiffs' claims consist of five counts relating to the defendants' Peace of Mind program under which the applicable tax return preparation subsidiary assumes liability for the cost of additional tax assessments attributable to tax return preparation error. The plaintiffs allege that defendants' sale of its Peace of Mind guarantee constitutes statutory fraud by selling insurance without a license, an unfair trade practice, by omission and by "cramming" (i.e., charging customers for the guarantee even though they did not request it and/or did not want it), and constitutes a breach of fiduciary duty. In August 2003, the court certified the following plaintiff classes: (1) all persons who were charged a separate fee for Peace of Mind by "H&R Block" or a defendant H&R Block class member from January 1, 1997 to final judgment; (2) all persons who reside in certain class states and who were charged a separate fee for Peace of Mind by "H&R Block," or a defendant H&R Block class member, and that was not licensed to sell insurance, from January 1, 1997 to final judgment; and (3) all persons who had an unsolicited charge for Peace of Mind posted to their bills by "H&R Block" or a defendant H&R Block class member from January 1, 1997, to final judgment. Among those excluded from the plaintiff classes are all persons who received the Peace of Mind guarantee through an H&R Block Premium office and all persons who reside in Texas and Alabama. The court also certified a defendant class consisting of any entity with the names "H&R Block" or "HRB" in its name, or otherwise affiliated or associated with H&R Block Tax Services, Inc., and which sold or sells the Peace of Mind product. The trial court subsequently denied the defendants' motion asking the trial court to certify the class certification issues for interlocutory appeal. Discovery is proceeding.

There is one other putative class action pending against us in Texas that involves the Peace of Mind guarantee. This case is being tried before the same judge that presided over the Texas RAL Settlement and involves the same plaintiffs attorneys that are involved in the Marshall litigation in Illinois and substantially similar allegations. No class has been certified in this case.

We believe the claims in these Peace of Mind actions are without merit and we intend to defend them vigorously. However, there can be no assurances as to the outcome of these pending actions individually or in the aggregate, and there can be no assurances on the impact of these actions on our consolidated results of operations or financial position.

Other Claims and Litigation. As with other broker-dealers that distribute mutual fund shares, HRBFA is the subject of an investigation by the NASD into activities characterized as "market timing" and "late trading" of mutual fund shares by HRBFA. The NASD staff has notified HRBFA that on the basis of its investigation it has preliminarily determined to recommend a disciplinary action against HRBFA for violating various federal securities laws and NASD rules in connection with market timing activities that took place primarily in one of HRBFA's offices. HRBFA has provided the NASD a written response to its allegations. HRBFA is cooperating with the NASD and has conducted its own internal investigation. While we cannot provide assurance regarding the ultimate resolution of this matter, we believe the resolution of this matter will not have a material adverse effect on our operations, consolidated results of operations or financial position.

As part of an industry-wide review, the IRS is investigating tax planning strategies that certain RSM clients utilized during fiscal years 2000 through 2003. Specifically, the IRS is examining these strategies to determine whether RSM complied with tax shelter registration and listing regulations and whether such strategies were appropriate. If the IRS were to determine that these strategies were inappropriate, clients that utilized the strategies could face penalties and interest for underpayment of taxes and may attempt to seek recovery from RSM. While there can be no assurance regarding the outcome of this matter, we do not believe that its resolution will have a material adverse effect on our operations, consolidated results of operations or financial position.

As reported in current report on Form 8-K dated December 12, 2003, the United States SEC informed outside counsel to the Company on December 11, 2003 that the Commission had issued a Formal Order of Investigation concerning our disclosures, in and before November 2002, regarding RAL litigation to which we were and are a party. There can be no assurances as to the outcome and resolution of this matter.

We have from time to time been party to claims and lawsuits not discussed herein arising out of our business operations, including additional claims and lawsuits concerning RALs, the Peace of Mind guarantee program, the Express IRA program and claims and lawsuits concerning the preparation of customers' income tax returns, the electronic filing of customers' tax returns, the fees

charged customers for various products and services, losses incurred by customers with respect to their investment accounts, relationships with franchisees, denials of mortgage loans, contested mortgage foreclosures, other aspects of the mortgage business, intellectual property disputes, and contract disputes. Such lawsuits include actions by individual plaintiffs, as well as cases in which plaintiffs seek to represent a class of similarly situated customers. The amounts claimed in these claims and lawsuits are substantial in some instances and the ultimate liability with respect to such litigation and claims is difficult to predict. We consider these cases to be ordinary, routine litigation incidental to our business, we believe we have meritorious defenses to each of them, and we are defending, or intend to defend, them vigorously. While we cannot provide assurance that we will ultimately prevail in each instance, we believe the amount, if any, we are required to pay in the discharge of liabilities or settlements in these other matters will not have a material adverse effect on our consolidated results of operations or financial position.

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

No matters were submitted to a vote of security holders during the fourth quarter of fiscal year 2004. Information regarding executive officers is contained in Item 10 of this report.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

H&R Block's common stock is traded principally on the NYSE and is also traded on the Pacific Exchange. The information called for by this item with respect to H&R Block's common stock appears in Item 8, note 22 to our consolidated financial statements. The remaining information called for by this item relating to "Securities Authorized for Issuance under Equity Compensation Plans" is reported in Item 8, note 14 to our consolidated financial statements. On June 15, 2004, there were 31,063 shareholders of record and the closing stock price on the NYSE was $46.62 per share.

A summary of our purchases of H&R Block common stock during the fourth quarter of fiscal year 2004 is as follows:

(shares in 000s)

	Total **Number of Shares Purchased[2]**	Average **Price Paid per Share**	Total Number of **Shares Purchased as Part of Publicly Announced Plans or Programs[1]**	Maximum Number **of Shares that May Be Purchased Under the Plans or Programs[1][3]**
February 1 – February 29	**781**	**$55.28**	**780**	**13,367**
March 1 – March 31	**1,460**	**$53.81**	**1,460**	**11,907**
April 1 – April 30	**575**	**$46.75**	**575**	**11,332**

(1) On June 11, 2003, our Board of Directors approved the repurchase of 20 million shares of H&R Block common stock. This authorization has no expiration date.

(2) Of the total number of shares purchased, 1,202 shares were purchased in connection with funding employee income tax withholding obligations arising upon the exercise of stock options or the lapse of restrictions on restricted shares.

(3) On June 9, 2004, our Board of Directors approved the additional repurchase of 15 million shares of H&R Block common stock. This authorization has no expiration date.

ITEM 6. SELECTED FINANCIAL DATA

(in 000s, except per share amounts)

April 30,	**2004**	2003	2002	2001	2000
Revenues	**$4,205,570**	$3,746,457	$3,285,701	$2,965,405	$2,420,923
Net income before change in accounting principle	**704,256**	580,064	434,405	276,748	251,895
Net income	**697,897**	580,064	434,405	281,162	251,895
Basic earnings per share:					
Net income before change in accounting principle	**$ 3.98**	$ 3.23	$ 2.38	$ 1.50	$ 1.28
Net income	**3.94**	3.23	2.38	1.53	1.28
Diluted earnings per share:					
Net income before change in accounting principle	**$ 3.90**	$ 3.15	$ 2.31	$ 1.49	$ 1.27
Net income	**3.86**	3.15	2.31	1.52	1.27
Total assets	**$5,380,026**	$4,767,308	$4,384,640	$4,166,044	$5,700,146
Long-term debt	**545,811**	822,302	868,387	870,974	872,396
Dividends per share	**$ .78**	$ .70	$ .63	$ .59	$ .54

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

We are a diversified company with subsidiaries delivering tax, financial, mortgage and business products and services. We are the only major company offering a full range of software, online and in-office tax solutions, combined with personalized financial advice about retirement savings, home ownership and other opportunities to help clients build a better financial future.

Overall for fiscal 2004, we achieved strong financial results and generally executed well against our strategic priorities. We were able to increase our tax and financial advice offerings, strengthen our multi-channel offerings and continued to cross-sell our financial services and products across segments, which we believe all help increase brand loyalty and client retention. However, we saw a decline in our retail tax clients served in our offices. Additionally, we again saw Mortgage Operations deliver strong financial results. Our key strategic priorities can be summarized as follows:

- U.S. Tax Operations – expanding our office network, working on service and product differentiation and focusing on advice that supports client growth, increased brand loyalty and business extensions with a tax and financial connection.
- Mortgage Operations – developing a diversified source of originations, distinguishing our service quality, minimizing risk and volatility in performance and using secondary markets to optimize value.
- Business Services – developing a national accounting, tax and consulting firm, adding extended services to middle-market companies and enhancing our client service culture.
- Investment Services – serving the broad consumer market through tax-based advisory relationships, brand differentiation through relevant advice and multi-channel access and providing services clients can use to readily implement that advice.

The analysis that follows should be read in conjunction with the tables below, the consolidated income statements and the information contained in Item 1 under "Description of Business."

Overview

A summary of our fiscal year 2004 results is as follows:

- Diluted earnings per share before change in accounting principle were $3.90, an increase of 23.8% over fiscal year 2003.
- Revenues grew 12.3% over the prior year, primarily due to revenues from operations in former major franchise territories and growth in our Mortgage Operations segment. We achieved revenue growth in each of our segments.
- Clients served in company-owned retail tax offices grew 5.2%, and the average fee per client served increased 6.7%. The increase in clients served is due entirely to company-owned operations in former major franchise territories. Excluding the former major franchise territories, clients served decreased 2.5%.
- Software and online revenues increased 11.4% and 70.6%, respectively, compared to fiscal year 2003.
- Mortgage originations totaled $23.3 billion for the year as a result of increases in the sales force, average loan size, loan applications and the closing ratio.
- Gains on sales of mortgage assets reached $726.7 million, including $40.7 million realized on the sale of previously securitized residual interests.
- The Business Services segment reported pretax income of $19.3 million, an improvement of $33.4 million over the prior year. Fiscal year 2003 includes an $11.8 million goodwill impairment.
- The Investment Services segment reported a pretax loss of $64.4 million, an improvement of $63.8 million over prior year. Fiscal year 2003 includes a $24.0 million goodwill impairment.
- We began expensing stock-based compensation as of May 1, 2003. We recorded $25.7 million in expense related to the issuance of stock options, restricted stock and our employee stock purchase plan during fiscal year 2004.

Consolidated Results of Operations (in 000s)

Year ended April 30,	**2004**	2003	2002
REVENUES:			
U.S. Tax Operations	**$2,093,617**	$1,861,681	$1,831,274
Mortgage Operations	**1,281,399**	1,165,411	702,333
Business Services	**499,210**	434,140	416,926
Investment Services	**229,470**	200,794	250,685
International Tax Operations	**97,560**	85,082	78,710
Corporate Operations	**4,314**	(651)	5,773
	$4,205,570	$3,746,457	$3,285,701
INCOME (LOSS):			
U.S. Tax Operations	**$ 627,592**	$ 547,078	$ 533,468
Mortgage Operations	**678,261**	693,950	339,388
Business Services	**19,321**	(14,118)	22,716
Investment Services	**(64,446)**	(128,292)	(54,862)
International Tax Operations	**11,097**	10,464	7,093
Corporate Operations	**(107,668)**	(122,005)	(130,963)
Pretax income	**$1,164,157**	$ 987,077	$ 716,840

CRITICAL ACCOUNTING POLICIES

We consider the policies discussed below to be critical to securing an understanding of our financial statements, as they require the use of significant judgment and estimation in order to measure, at a specific point in time, matters that are inherently uncertain. Specific risks for these critical accounting policies are described in the following paragraphs. For all of these policies, we caution that future events rarely develop precisely as forecast, and estimates routinely require adjustment and may require material adjustment.

Revenue recognition: We have many different revenue streams with different revenue recognition policies. We record retail and online tax preparation revenues when a completed return is filed or accepted by the customer. RAL participation revenue is recorded when we purchase our participation interest in the RAL. Commission revenue is recognized on a trade-date basis. Business Services revenues are recognized on a time and materials basis.

We recognize interest income on customer margin loan balances daily as earned, based on current rates charged to customers for their margin balance. Accretion income represents interest earned over the life of residual interests using the effective interest method.

We record sales of software when the product is ultimately sold to the end user. POM revenues are deferred and recognized over the term of the guarantee based upon historic and actual payment of claims.

Franchise royalties, which are based upon the contractual percentages of franchise revenues, are recorded in the period in which the franchise provides the service.

Gains on sales of mortgage loans: We sell substantially all of the non-prime mortgage loans we originate to the Trusts, which are qualifying special purpose entities ("QSPEs"), with servicing rights generally retained. Prime mortgage loans are sold in whole loan sales, servicing released, to third-party buyers. We record the gain on sale as the difference between cash proceeds and the allocated cost of loans sold.

We determine the allocated cost of loans sold based on the relative fair values of loans sold, MSRs and the beneficial interest in Trusts, which represents the ultimate expected outcome from the disposition of the loans. The relative fair value of the MSRs and the beneficial interest in Trust is determined using discounted cash flow models, which require various management assumptions (see discussion below in "Valuation of residual interests" and "Valuation of mortgage servicing rights"). Variations in these assumptions affect the estimated fair values, which would affect the reported gains on sales. Gains on sales of mortgage loans totaled $716.7 million, $663.6 million and $455.4 million for fiscal years 2004, 2003 and 2002, respectively.

See discussion in "Off-Balance Sheet Financing" related to the disposition of the loans by the Trusts and subsequent securitization by the Company.

Valuation of residual interests: We use discounted cash flow models to arrive at the estimated fair values of our residual interests. See Item 8, note 1 to our consolidated financial statements for our methodology used in valuing residual interests. Variations in our assumptions, including loss, prepayment speeds, discount rate and interest rate assumptions, could materially affect the estimated fair values, which may require us to record impairments or unrealized gains. In addition, variations will also affect the amount of residual interest accretion recorded on a monthly basis. Residual interests – available-for-sale valued at $211.0 million and $264.3 million were recorded as of April 30, 2004 and 2003, respectively. We recorded $167.1 million in net write-ups in other comprehensive income and $30.7 million in impairments in the income statement related to our residual interests during fiscal year 2004 as actual results differed from our assumptions. See Item 8, note 6 to our consolidated financial statements for current assumptions and a sensitivity analysis of those assumptions. See Item 7a for sensitivity analysis related to interest rates.

Valuation of mortgage servicing rights: We generally sell non-prime mortgage loans with servicing retained. MSRs are recorded at allocated carrying amounts based on relative fair values when the loans are sold (see discussion above in "Gains on sales of mortgage loans"). Fair values of MSRs are determined based on the present value of estimated future cash flows related to servicing loans. Assumptions used in estimating the value of MSRs include discount rates, prepayment speeds (including default) and other factors. The prepayment speeds are somewhat correlated with the movement of market interest rates. As market interest rates decline there is a corresponding increase in actual and expected borrower prepayments as customers refinance existing mortgages under more favorable interest rate terms. This in turn reduces the anticipated cash flows associated with servicing resulting in a reduction, or impairment, to the fair value of the capitalized MSR. Many non-prime loans have a prepayment penalty in place for the first two to three years, which has the effect of making prepayment speeds more predictable, regardless of market interest rate movements. Prepayment rates are estimated using our historical experience and third-party market sources. Variations in these assumptions could materially affect the carrying value of the MSRs.

MSRs are carried at the lower of cost or market and are reviewed quarterly for potential impairment. Impairment is assessed based on the fair value of each risk stratum. MSRs are stratified by: the fiscal year of the loan sale date (which approximates date of origination) and loan type (6-month adjustable, 2-to 3-year adjustable and fixed rate). Fair values take into account the historical prepayment activity of the related loans and our estimates of the remaining future cash flows to be generated through servicing the underlying mortgage loans. If actual prepayment rates prove to be higher than the estimate made by management, impairment of the MSRs could occur. MSRs valued at $113.8 million and $99.3 million were recorded as of April 30, 2004 and 2003, respectively. There were no impairments to MSRs during fiscal year 2004. See Item 8, note 6 to our consolidated financial statements for current assumptions and a sensitivity analysis of those assumptions.

Valuation of goodwill: We test goodwill for impairment annually or more frequently whenever events occur or circumstances change which would, more likely than not, reduce the fair value of a reporting unit below its carrying amount. We have defined our reporting units as our operating segments or one level below. The first step of the impairment test is to compare the estimated fair value of the reporting unit to its carrying value. If the carrying value is less than fair value, no impairment exists. If the carrying value is greater than fair value, a second step is performed to determine the fair value of goodwill and the amount of impairment loss, if any. In estimating each reporting unit's fair value using discounted cash flow projections and market comparables, when available, we make assumptions, including discount rates, growth rates and terminal values. Changes in the projections or assumptions could materially affect fair values. Our goodwill balances were $959.4 million and $714.2 million as of April 30, 2004 and 2003, respectively. No goodwill impairments were identified during fiscal year 2004.

In fiscal year 2003, a goodwill impairment charge of $24.0 million was recorded in the Investment Services segment due to unsettled market conditions. Also during 2003, our annual impairment test resulted in an impairment of $11.8 million for a reporting unit within the Business Services segment. No other impairments were identified.

Litigation: Our policy is to routinely assess the likelihood of any adverse judgments or outcomes related to legal matters, as well as ranges of probable losses. A determination of the amount of the reserves required, if any, for these contingencies is made after thoughtful analysis of each known issue and an analysis of historical experience in accordance with Statement of Financial Accounting Standards No. 5, "Accounting for Contingencies," and related pronouncements. Therefore, we have recorded reserves related to certain legal matters for which it is probable that a loss has been incurred and the range of such loss can be estimated. With respect to other matters, we have concluded that a loss is only reasonably possible or remote and, therefore, no liability is recorded. In addition, there are certain gain contingencies for which we have not recorded an asset.

Stock-Based Compensation: We record compensation expense for the issuance of stock options, restricted shares and our employee stock purchase plan ("ESPP"). The expense is calculated based on the fair value of the options/shares and the number of options/shares that vest. We use the Black-Scholes model to calculate the fair value for stock options and ESPP shares using the following assumptions: stock volatility, expected life, risk-free interest rate and dividend yield. The fair value of restricted shares is the stock price on the date of the grant. We also estimate, based on historical data, the percent of options/shares that we expect to vest. The total expense is recognized on a straight-line basis over the vesting period. Variations in the assumptions used to calculate fair value could either positively or negatively affect the recorded expense. Variations in the estimate of vesting could result in timing adjustments recorded at the end of the vesting period.

We began expensing all stock-based compensation grants issued beginning on May 1, 2003. Therefore, our income statements do not fully reflect the expense related to all of our stock options and restricted shares outstanding. We recorded

$25.7 million and $2.1 million in stock-based compensation expense during fiscal year 2004 and 2003, respectively.

Additionally, changes in accounting rules related to stock-based compensation could result in changes to our assumptions of fair value and expense recognition.

Other significant accounting policies: Other significant accounting policies, not involving the same level of measurement uncertainties as those discussed above, are nevertheless important to an understanding of the financial statements. These policies require difficult judgments on complex matters that are often subject to multiple sources of authoritative guidance. Certain of these matters are among topics currently under reexamination by accounting standards setters and regulators. Although no specific conclusions reached by these standard setters appear likely to cause a material change in our accounting policies, outcomes cannot be predicted with confidence. Also see Item 8, note 1 to our consolidated financial statements, which discusses accounting policies we have selected when there are acceptable alternatives.

RESULTS OF OPERATIONS

Our business is divided into five reportable segments: U.S. Tax Operations, Mortgage Operations, Business Services, Investment Services and International Tax Operations.

U.S. TAX OPERATIONS

This segment primarily consists of our income tax preparation businesses – retail, online and software.

U.S. Tax Operations – Operating Statistics (in 000s, except average fee)

Year ended April 30,	**2004**	2003[1]	2002[1]
Clients served:			
Company-owned offices [2]	**9,811**	10,058	10,513
Former major franchise territories [3]	**775**	**	**
Total company-owned	**10,586**	10,058	10,513
Franchise offices	**5,413**	5,629	5,785
Former major franchise territories [3]	**16**	830	850
Total franchise	**5,429**	6,459	6,635
Digital tax solutions:			
Software [4]	**2,027**	1,963	1,825
Online [5]	**1,207**	920	481
	19,249	19,400	19,454
Average fee per client served: [7]			
Company-owned offices [2]	**$147.38**	$137.36	$128.69
Former major franchise territories [3]	**135.52**	**	**
Total company-owned	**146.51**	137.36	128.69
Franchise offices	**128.02**	117.42	108.82
Former major franchise territories [3]	**126.13**	122.96	112.31
Total franchise	**128.02**	118.14	109.27
	$140.24	$129.84	$121.18
RALs: [6]			
Company-owned offices [2]	**2,521**	2,758	2,844
Former major franchise territories [3]	**185**	**	**
Total company-owned	**2,706**	2,758	2,844
Franchise offices	**1,501**	1,595	1,573
Former major franchise territories [3]	**	188	189
Total franchise	**1,501**	1,783	1,762
Digital tax solutions:			
Software	**5**	—	11
Online	**57**	75	33
	4,269	4,616	4,650

U.S. Tax Operations – Financial Results (in 000s)

Year ended April 30,	**2004**	2003	2002
Tax preparation and related fees	**$1,519,238**	$1,378,733	$1,364,673
Royalties	**173,754**	163,519	154,780
RAL waiver fees	**6,548**	138,242	—
RAL participation fees	**168,375**	874	159,965
Software sales	**69,474**	62,368	54,823
Online tax services	**44,860**	26,290	14,606

Peace of Mind revenue	**75,025**	47,677	44,387
Other	**36,343**	43,978	38,040
Total revenues	**2,093,617**	1,861,681	1,831,274
Compensation and benefits	**662,326**	577,545	598,355
Occupancy and equipment	**235,469**	207,366	186,998
Depreciation and amortization	**54,879**	39,456	39,871
Supplies, freight and postage	**39,666**	39,579	35,989
Cost of software sales	**25,274**	20,085	19,947
Bad debt	**44,155**	17,358	38,235
Legal	**7,645**	69,783	7,641
Other	**126,338**	105,456	137,884
Allocated corporate and shared costs:			
Marketing	**110,807**	90,142	99,560
Information technology	**91,158**	77,285	77,230
Finance	**19,675**	22,367	13,270
Supply	**21,607**	19,724	19,508
Other	**27,026**	28,457	23,318
Total expenses	**1,466,025**	1,314,603	1,297,806
Pretax income	**$ 627,592**	$ 547,078	$ 533,468

(1) Company-owned and franchise numbers for fiscal years 2003 and 2002 have not been restated for franchise acquisitions during fiscal year 2004.

(2) Excludes company-owned offices in former major franchise territories, which commenced operations during fiscal year 2004.

(3) Impact of company-owned offices in former major franchise territories, which commenced operations during fiscal year 2004.

(4) Includes TaxCut federal units sold.

(5) Includes a) online completed and paid federal returns, and b) state returns only when no payment was made for a federal return.

(6) Data is for tax season (January 1 – April 30) only.

(7) Calculated as gross tax preparation and related fees divided by clients served.

Fiscal 2004 compared to fiscal 2003

U.S. Tax Operations' revenues increased $231.9 million, or 12.5%, to $2.1 billion for fiscal year 2004.

Tax preparation and related fees increased $140.5 million, or 10.2%, for fiscal year 2004, compared to fiscal year 2003. This increase is due to a 6.7% increase in the average fee per client served in company-owned offices, coupled with a 5.2% increase in clients served in those offices. The average fee per client served increased to $146.51 in fiscal year 2004, due to increases in our pricing and the complexity of returns prepared. Clients served increased to 10.6 million from 10.1 million as a result of the former major franchise territories. Excluding the impact of our acquisition of former major franchises, clients served declined 2.5%. We believe this decline is due to a combination of factors including a lack of office network density in some key areas of the country. Given the competitive environment and lack of density in key areas, we believe some potential clients, who are primarily motivated by convenience and who do not want to wait for service in our office or drive as far to our office, will instead go to a competitor who is perceived to be more convenient. This is an indication that, for certain consumers, we have not been able to effectively differentiate our services from the competition. See discussion of our future strategy in "Fiscal 2005 Outlook" below. We also believe our marketing campaign, which focused primarily on our brand, did not effectively drive clients, particularly early season filers, into our offices.

The average fee per client at our franchise offices increased 8.4%, while clients served declined 15.9%. The decline is due to the former major franchise territories being operated as company-owned for the majority of fiscal year 2004. These changes, coupled with the re-franchising of certain former major franchise territories at higher royalty rates, resulted in an increase in royalty revenue of 6.3%.

Revenues earned during the current year in connection with RAL participations totaled $168.4 million. These revenues are approximately $30.1 million higher than waiver fees earned during fiscal year 2003 and $8.4 million higher than participation fees earned in fiscal year 2002. See discussion on the waiver below. Our RAL participation revenues are benefiting from the new company-owned operations in former major franchise territories. We participate in RALs at a rate of nearly 50% for company-owned offices compared to 25% in major franchise offices. This increased participation rate has allowed our revenues to increase, although the number of RALs has declined 8.2% since fiscal year 2002.

During fiscal year 2003, we entered into an agreement with Household, whereby we waived our right to purchase any participation interests in and receive license fees for RALs during the period January 1 through April 30, 2003. In consideration for waiving these rights we received a series of payments from Household in fiscal year 2003, subject to certain adjustments in fiscal year 2004 based on delinquency rates. See discussion in Item 1, "RAL Participations and 2003 Tax Season Waiver."

A total of 3.8 million software units were sold during fiscal year 2004, an increase of 11.2% compared to unit sales of 3.4 million in 2003. Software units include TaxCut Federal, TaxCut State, DeductionPro, WillPower and Legal Advisor. Revenues from software sales of $69.5 million in fiscal year 2004 increased 11.4% as a result of the higher sales volume.

Online tax preparation revenues increased 70.6% to $44.9 million primarily as a result of an increase in the average price and a 31.2% increase in clients served. Increases in software and online unit sales have an especially beneficial impact to our earnings, as these operations have relatively low variable costs.

POM revenues for fiscal year 2004 increased $27.3 million, or 57.4%, primarily due to a change in accounting principle. Prior to the adoption of EITF 00-21, revenues related to POM guarantees in premium offices were recorded within tax preparation revenues. With the adoption of EITF 00-21, the revenues are deferred and recognized over the guarantee period. The increase over the prior year is a result of the amortization of larger deferred revenue balances established as part of the cumulative effect of a change in accounting principle. The cumulative effect will increase revenues this year and in future years, but is offset by the $6.4 million reduction to consolidated net income in fiscal year 2004.

Total expenses for fiscal year 2004 were up $151.4 million, or 11.5%, from 2003. These increased expenses were partially attributable to the operation of former major franchise territories as company-owned. Compensation and benefits increased $42.6 million as a result of the former major franchises and $20.2 million due to field wages during the later part of the tax season. Additionally, $12.9 million was incurred for the expensing of stock options awarded to seasonal tax associates. Occupancy and equipment costs increased $28.1 million due primarily to a 5.7% increase in the average rent and a 3.4% increase in the number of offices under lease. Depreciation and amortization increased as a result of $9.0 million in intangible amortization from the acquisition of assets of former major franchisees and additional equipment purchased for new office locations opened during the period. Bad debt expense increased $26.8 million as a result of bad debt expense associated with RAL participations, which was not recorded in the prior year due to the waiver agreement. Allocated marketing costs increased $20.7 million as a result of additional marketing directed toward our brand repositioning and raising consumer awareness of our advice offerings via the Block Advantage Campaign. Allocated information technology costs increased $13.9 million as a result of additional technology projects.

These increases were partially offset by a $62.1 million decrease in legal expenses, which is primarily a result of the Texas RAL litigation settlement and other cases in the prior year. See discussion in "RAL Litigation" below.

Pretax income for fiscal year 2004 increased $80.5 million, or 14.7%, over 2003. The segment's operating margin improved sixty basis points to 30.0% in fiscal year 2004.

Fiscal 2005 outlook

For us to successfully grow our client base in future years, we must improve the convenience of our services through office expansion and differentiate the value of our services through advice and multi-channel access. In fiscal year 2005, we plan to expand our company-owned office locations by 500-600 offices. We believe by investing in our office network, we can attract potential clients who are primarily motivated by convenience. Although, we expect the additional tax offices to result in incremental revenues during fiscal year 2005, due to the cost of expansion, we do not expect any growth in pretax income from this office expansion.

Over the past few fiscal years, we have focused on integrating actionable advice into our relationships with our tax clients. We continue each year to add new areas of free advice targeted at the individual client based on information provided during the preparation of their tax return. We believe our advice-based strategy is a key point of differentiation and strengthens our competitive position. In addition, our Licensed Referral Tax Professional ("LRTP") program, which provides referrals to HRBFA financial advisors, is key to bringing financial advice and services to the portion of our client base where more sophisticated investment services are appropriate. Our fiscal year 2005 goal is to have 2,500 LRTPs. We believe this advice relationship, as well as our ability to offer retail mortgage products to our client base increases our tax client retention.

We will also continue to enhance our digital tax solutions. We believe our multi-channel strategy not only allows clients to choose how they want to be served, but also allows us to appeal to a different client base than we do through our offices.

Fiscal 2003 compared to fiscal 2002

U.S. Tax Operations' revenues increased $30.4 million, or 1.7%, to $1.9 billion for fiscal year 2003.

Tax preparation and related fees increased $14.1 million, or 1.0%, for fiscal year 2003, compared to fiscal year 2002. This increase is due to a 6.7% increase in our average fee per client served, partially offset by a 4.3% decrease in clients served in company-owned offices. The increase in the average fee per client served is primarily due to an increase in the complexity of returns prepared. The decrease in clients served in company-owned offices during fiscal year 2003 was driven primarily by the impact of the sustained weak economy. Additionally, due to the absence of substantive tax law changes, the marketing programs failed to attract as much new business as in the previous year.

Royalty revenue increased $8.7 million, or 5.6%. The average fee per client served at franchise offices increased 8.1%, while clients served declined 2.7%.

RAL waiver fees of $138.2 million were recognized during fiscal year 2003. We participated in RALs in fiscal year 2002 and recognized revenues of $160.0 million.

A total of 3.4 million software units were sold during fiscal year 2003, an increase of 12.1% compared to unit sales of 3.0 million in 2002. Revenues from software sales of $62.4 million in fiscal year 2003 increased 13.8% as a result of the higher sales volume. This increase was partially offset by increases in the number of rebates offered and customer rebate redemption rates.

Online tax preparation revenues increased 80.0% primarily as a result of a 91.3% increase in clients served.

Total expenses for fiscal year 2003 were up $16.8 million, or 1.3%, from 2002. These increased expenses were primarily attributable to a litigation reserve of $41.7 million recorded during the second quarter of fiscal year 2003 relating to Texas RAL litigation. Other legal costs increased $20.4 million due to various legal proceedings.

Occupancy and equipment costs increased $20.4 million due primarily to a 5.2% increase in the number of offices under lease and increases in related utility and other support charges. Allocated finance expenses increased $9.1 million, or 68.6%, primarily due to increased insurance costs. These increases were partially offset by a $20.8 million decrease in compensation and benefits. This decrease was due to better management of support staff wages, a decline in payroll taxes related to seasonal stock option exercises and changes in the tax preparer compensation plan. Bad debt expense declined $20.9 million as a result of collections of RAL receivables, which were written off in prior years, and the elimination of bad debt expense associated with RAL participations. Other expenses decreased $32.4 million from 2002 primarily due to reduced servicing expenses associated with prior year RAL participations.

Pretax income for fiscal year 2003 increased $13.6 million, or 2.6%, over 2002. The segment's operating margin improved thirty basis points to 29.4% in fiscal year 2003.

RAL litigation

We have been named as a defendant in a number of lawsuits around the country alleging that we engaged in wrongdoing with respect to the RAL program. In particular, the plaintiffs in these cases have alleged that disclosures in the RAL applications were inadequate, misleading and untimely; that the RAL interest rates were usurious and unconscionable; that we suppressed the fact that we would receive part of the finance charges paid by the customer for such loans; and that we owe, and breached, a fiduciary duty to our customers in connection with the RAL program. In many of these cases, the plaintiffs seek to proceed on behalf of a class of similarly situated RAL customers, and in certain instances the courts have allowed the cases to proceed as class actions. In other cases, courts have held that plaintiffs must pursue their claims on an individual basis, and may not proceed as a class action. See Item 3, Legal Proceedings for additional information.

On November 19, 2002, we announced a settlement had been reached in the cases *Ronnie and Nancy Haese, et al. v. H&R Block, Inc., et al*., Case No. CV96-4213, District Court of Kleberg County, Texas (Haese I) and Ronnie and Nancy Haese, et al. v. H&R Block, Inc., et al., Case No. CV-99-314-D, District Court of Kleberg County, Texas (Haese II), filed originally as one action on July 30, 1996. As a result of that settlement, we recorded a liability and pretax expense of $43.5 million during the 2003 fiscal year. This represented our best estimate of our share of the settlement, plaintiff class legal fees and expenses, tax products and associated mailing expenses. Our share of the settlement is less than the total amount awarded due to amounts recoverable from a co-defendant in the case.

We believe we have strong defenses to the various RAL cases and will vigorously defend our position. Nevertheless, the amounts claimed by the plaintiffs are, in some instances, very substantial, and there can be no assurances as to the ultimate outcome of the pending RAL cases, or as to the impact of the RAL cases on our financial statements.

MORTGAGE OPERATIONS

This segment is primarily engaged in the origination of non-prime mortgage loans through an independent broker network, the origination of prime and non-prime mortgage loans through a retail office network, the sale and securitization of mortgage loans and residual interests, and the servicing of non-prime loans.

We believe offering retail mortgage products to other segments' clients results in added value to the total client experience. During fiscal year 2004, 48.9% of our retail loans were made to other segments' clients. We estimate, for those clients who purchase these products, their retention as a tax client improves by more than six percentage points.

Mortgage Operations – Operating Statistics	(dollars in 000s)		
Year ended April 30,	**2004**	2003	2002
Number of loans originated:			
Wholesale (non-prime)	**130,356**	93,497	74,208
Retail: Prime	**9,763**	12,361	7,935
Non-prime	**15,220**	9,983	7,190
Total	**155,339**	115,841	89,333
Volume of loans originated:			
Wholesale (non-prime)	**$20,150,992**	$13,659,243	$ 9,457,331
Retail: Prime	**1,258,347**	1,697,815	1,179,137
Non-prime	**1,846,674**	1,220,563	816,705
Total	**$23,256,013**	$16,577,621	$11,453,173
Loan sales:			
Loans originated	**$23,234,935**	$16,591,821	$11,440,190
Loans acquired	**–**	633,953	–
Total	**$23,234,935**	$17,225,774	$11,440,190
Weighted average FICO score (2)	**608**	604	600
Execution price – Net gain on sale (1)			
Loans originated and sold	**4.09%**	4.63%	4.30%
Loans acquired and sold	**–**	.18%	–
Total	**4.09%**	4.46%	4.30%
Weighted average interest rate for borrowers (2)	**7.39%**	8.15%	9.09%
Weighted average loan-to-value (2)	**78.1%**	78.7%	78.6%

(1) Defined as total premium received divided by total balance of loans delivered to third-party investors or securitization vehicles (excluding mortgage servicing rights and the effect of loan origination expenses).
(2) Represents non-prime production.

Mortgage Operations – Financial Results	(in 000s)		
Year ended April 30,	**2004**	2003	2002
Components of gains on sales:			
Gains on mortgage loans	**$ 716,690**	$ 663,573	$455,388
Gains on sales of residual interests	**40,689**	130,881	–
Impairment of residual interests	**(30,661)**	(54,111)	(30,987)
Total gains on sales	**726,718**	740,343	424,401
Loan servicing revenue	**211,710**	168,351	147,162
Interest income:			
Accretion-residual interests	**168,029**	145,165	50,583
Accretion-beneficial interest	**167,705**	103,294	70,668
Other interest income	**5,064**	5,421	6,609
Total interest income	**340,798**	253,880	127,860
Other	**2,173**	2,837	2,910
Total revenues	**1,281,399**	1,165,411	702,333
Compensation and benefits	**297,441**	242,143	171,084
Servicing and processing	**107,538**	74,774	86,146

Occupancy and equipment	**49,231**	42,626	30,700
Other	**148,928**	111,918	75,015
Total expenses	**603,138**	471,461	362,945
Pretax income	**$ 678,261**	$ 693,950	$339,388

Fiscal 2004 compared to fiscal 2003

Mortgage Operations' revenues increased $116.0 million, or 10.0%, compared to the prior year. This increase was primarily a result of higher servicing income, increased production volumes and accretion.

The following table summarizes the key drivers of gains on sales of mortgage loans:

	(dollars in 000s)	
Year ended April 30,	**2004**	2003
Number of sales associates [1]	**2,812**	2,228
Total number of applications	**269,267**	216,492
Closing ratio [2]	**57.7%**	53.5%
Total number of originations	**155,339**	115,841
Average loan size	**$ 150**	$ 143
Total originations	**$23,256,013**	$16,577,621
Non-prime/prime origination ratio	**17.5:1**	8.8:1
Loan sales	**$23,234,935**	$17,225,774
Execution price – net gain on sale [3]	**4.09%**	4.46%

(1) Includes all direct sales and back office sales support associates.

(2) Percentage of loans funded divided by total applications in the period.

(3) Defined as total premium received divided by total balance of loans delivered to third-party investors or securitization vehicles (excluding mortgage servicing rights and the effect of loan origination expenses).

Gains on sales of mortgage loans increased $53.1 million to $716.7 million for the year ended April 30, 2004. The increase over last year is a result of a significant increase in loan origination volume, an increase in the average loan size and the closing ratio, partially offset by a decrease in the loan sale execution price and increased loan sale repurchase reserves. During the year, the Company originated $23.3 billion in mortgage loans compared to $16.6 billion last year, an increase of 40.3%. The execution price on mortgage loan sales decreased primarily due to lower mortgage rates as the non-prime industry adjusted rates to reflect changes in the market interest rates. The loan sale repurchase reserves, which are netted against gains on sales, increased $25.5 million over the prior year. This increase is primarily a result of an increase in loan sales coupled with the increase in whole loan sales compared to securitizations, for which higher reserves are provided at the time of sale for estimated repurchases. Whole loan sales accounted for 76% of total loan sales, compared to 41% in the prior year.

In November 2002, the Company completed the sale of previously securitized residual interests and recorded a gain of $130.9 million. This sale accelerated cash flows from these residual interests, effectively realizing previously recorded unrealized gains included in other comprehensive income. Two smaller transactions were completed in fiscal year 2004, which resulted in gains of $40.7 million.

Impairments of residual interests in securitizations of $30.7 million were recognized during the year compared with $54.1 million in the prior year. The impairments were due primarily to loan performance of older residuals and changes in assumptions to more closely align with the current economic and interest rate environment.

The following table summarizes the key drivers of loan servicing revenues:

(dollars in 000s)

Year ended April 30,	**2004**	2003
Average servicing portfolio:		
With related MSRs	**$32,039,811**	$23,858,490
Without related MSRs	**6,481,069**	3,883,980
	$38,520,880	$27,742,470
Number of loans serviced	**324,364**	246,463
Average delinquency rate	**6.04%**	7.08%
Value of MSRs	**$ 113,821**	$ 99,265

Loan servicing revenues increased $43.4 million, or 25.8%, this year. The increase reflects a higher average loan servicing portfolio, which was partially offset by the reduction of certain of our ancillary fees previously charged to borrowers. The average servicing portfolio for fiscal year 2004 increased 38.9%.

Total accretion of residual interests increased $22.9 million over the prior year. This improvement is the result of write-ups in the related asset values in fiscal years 2003 and 2004. Increases in fair value are realized in income through accretion over the remaining expected life of the residual interest.

For the majority of fiscal year 2004, our residual interests continued to perform better than expected primarily due to lower interest rates during the first part of the year and due to lower credit losses than assumed during the later part of the year. As a result of this performance, our residuals have produced, or are expected to produce, more cash proceeds than projected in previous valuation models. We recorded favorable pretax mark-to-market adjustments, which increased the fair value of our residual interests $199.7 million during the year. These adjustments were recorded, net of write-downs of $32.6 million and deferred taxes of $63.8 million, in other comprehensive income and will be accreted into income throughout the remaining life of the residual interests. Future changes in interest rates, actual loan pool performance or other assumptions could cause additional favorable or unfavorable adjustments to the fair value of the residual interests and could cause changes to the accretion of these residual interests in future periods. Additionally, sales of previously securitized residual interests results in decreases to accretion income in future periods.

Accretion of beneficial interest in Trusts increased $64.4 million, or 62.4%, in 2004. The balance of loans held by the Trusts and the interest margin earned impacts our accretion. The average balance of loans held by the Trusts increased to $3.2 billion from $1.8 billion in the prior year. The interest margin is the difference between the rate on the underlying loans and the financing costs of the Trusts. The interest rate margin decreased to 5.40% during fiscal year 2004, from 5.76% in 2003.

Total expenses increased $131.7 million, or 27.9%, over the prior year. Servicing and processing expenses increased $32.8 million, or 43.8%, as a result of a higher average servicing portfolio and the acceleration of amortization of certain MSRs. Compensation and benefits increased $55.3 million as a result of a 22.9% increase in the number of employees, reflecting resources needed to support higher loan production volumes. Other expenses increased $37.0 million, or 33.1%, for the current year, primarily due to $10.4 million in increased marketing expenses primarily for retail mortgage direct mail advertising, $13.5 million in increased allocated corporate and shared costs and $7.2 million in increased consulting expenses. Allocated costs increased due to higher insurance costs and the expensing of stock-based compensation. Occupancy and equipment expenses increased $6.6 million due to nine additional branch offices opened since October 2002, continued expansion of a second servicing center that opened in August 2002 and additional administrative office space.

Pretax income decreased $15.7 million, or 2.3%, for fiscal year 2004.

Fiscal 2005 outlook

We believe fiscal year 2005 will generally be a rising interest rate environment. In a rising interest rate environment, we expect our profit margins will narrow due to less favorable loan execution pricing compared to the sustained period of declining rates over the last two fiscal years. Actual execution pricing for the fourth quarter and full fiscal year 2004 was 3.96% and 4.09%, respectively. As of April 30, 2004, we have forward loan sale commitments at an average execution price of 4.38%.

With the rising interest rates we have raised our coupon rate since year-end. Although the timing and magnitude of changes to non-prime mortgage interest rates may differ from changes in other market interest rates, we will be utilizing various strategies in fiscal year 2005 to manage our pricing in a competitive rate environment.

Additionally, we believe we can grow our originations at a modest level by continued expansion of our retail business and focusing on controllable drivers in our wholesale business. These drivers include geographic expansion, growing our sales force, increasing our penetration of existing broker relationships and continuing to improve our closing ratios.

Based on these assumptions, we expect our mortgage segment pretax income to be flat to slightly down from this year, excluding the gain on sale of previously securitized residual interests.

Fiscal 2003 compared to fiscal 2002

Mortgage Operations' revenues increased $463.1 million, or 65.9%, compared to fiscal year 2002. This increase was primarily a result of increased production volumes and related sales execution pricing, gains on sales of previously securitized residuals and accretion on residual interests.

Gains on sales of mortgage loans increased $208.2 million to $663.6 million for the year ended April 30, 2003. The increase over the prior year is a result of a significant increase in loan origination volume, an increase in the average loan size, the closing ratio and the loan sale execution price. During 2003, the Company

originated $16.6 billion in mortgage loans compared to $11.5 billion in 2002, an increase of 44.7%. The execution price on mortgage loan sales increased primarily due to declining interest rates during the year, offset by a decline in the weighted-average coupon rate charged to borrowers.

In November 2002, the Company completed the sale of previously securitized residual interests and recorded a gain of $130.9 million.

Impairments of residual interests in securitizations of $54.1 million were recognized during fiscal year 2003, due primarily to loan performance of older residuals and changes in assumptions to more closely align with the current economic and interest rate environment.

Loan servicing revenues increased $21.2 million, or 14.4%, over fiscal year 2002. The increase reflects a higher average loan servicing portfolio. The average servicing portfolio for fiscal year 2003 increased 39.4%.

Total accretion of residual interests increased $94.6 million over fiscal year 2002. This improvement is the result of increases in the related asset values in fiscal years 2002 and 2003. Increases in fair value are realized in income through accretion over the remaining expected life of the residual interest.

We recorded favorable pretax mark-to-market adjustments, which increased the fair value of our residual interests $203.8 million during fiscal year 2003, and write-downs of $19.1 million. These adjustments were recorded, net of write-downs and deferred taxes of $70.5 million, in other comprehensive income and will be accreted into income throughout the remaining life of the residual interests.

Accretion of beneficial interest in Trusts increased $32.6 million, or 46.2%, in 2003, due to the average balance on loans held by the Trusts increasing to $1.8 billion from $1.2 billion in fiscal year 2002. Also contributing to the increase was higher interest margin earned. The interest rate margin increased to 5.76% during fiscal year 2003, from 5.58% in 2002.

Total expenses increased $108.5 million, or 29.9%, over fiscal year 2002. This increase is primarily due to a $71.1 million increase in compensation and benefits as a result of a 23.2% increase in the number of employees, reflecting resources needed to support higher loan production volumes. Occupancy and equipment expenses increased $11.9 million due to the opening of an additional servicing center and expansion of the servicing and information technology facilities to support the higher overall activity levels. Servicing and processing expenses declined due to an impairment of $11.6 million on servicing assets recorded during fiscal year 2002, while only $866 thousand was recorded in fiscal year 2003. Other expenses increased $36.9 million, or 49.2%, primarily due to increased consulting, depreciation and marketing expenses.

Pretax income increased $354.6 million, or 104.5%, for fiscal year 2003.

BUSINESS SERVICES

This segment offers middle-market companies accounting, tax and consulting services, wealth management, retirement resources, payroll services, corporate finance and financial process outsourcing.

Business Services – Operating Statistics

Year ended April 30,	**2004**	2003	2002
Accounting, tax and consulting:			
Chargeable hours	**2,598,397**	2,583,505	2,675,704
Chargeable hours per person	**1,414**	1,388	1,399
Net collected rate per hour	**$ 124**	$ 120	$ 113
Average margin per person	**$ 102,496**	$ 97,117	$ 94,052
Capital markets:			
Platforms delivered	**1,293**	655	(1)

(1) Not comparable due to mid-year acquisition of capital markets business.

Business Services – Financial Results (in 000s)

Year ended April 30,	**2004**	2003	2002
Accounting, tax and consulting	**$372,423**	$352,102	$365,194
Capital markets	**73,857**	35,626	10,756
Payroll, benefits and retirement services	**21,107**	20,578	17,048
Other	**31,823**	25,834	23,928
Total revenues	**499,210**	434,140	416,926
Compensation and benefits	**336,073**	292,291	265,960
Occupancy and equipment	**25,277**	24,428	19,957
Depreciation and amortization	**23,002**	23,044	21,339
Impairment of goodwill	**–**	11,777	–
Other	**95,537**	96,718	86,954
Total expenses	**479,889**	448,258	394,210
Pretax income (loss)	**$ 19,321**	$ (14,118)	$ 22,716

Fiscal 2004 compared to fiscal 2003

Business Services' revenues for fiscal year 2004 improved $65.1 million, or 15.0%, over the prior year. This increase was primarily due to a $38.2 million increase in capital markets revenue resulting from a 97.4% increase in the number of platforms delivered.

Revenues in accounting, tax and consulting also increased $20.3 million over the prior year as a result of newly acquired tax businesses and increased productivity. The acquisition of U.S. Tax Operations' former major franchises allowed us to acquire the tax businesses associated with the original M&P acquisition. We were previously unable to acquire and operate these businesses in direct competition with major franchise territories. The acquired tax businesses contributed $13.0 million in revenues in the current fiscal year. The remainder of the increase was driven primarily by a 3.3% increase in the net collected rate per hour.

Total expenses increased $31.6 million, or 7.1%, over the prior year. Compensation and benefits costs increased $43.8 million, primarily as a result of increased activity in the capital markets business and increased costs in traditional accounting. A goodwill impairment charge of $11.8 million was recorded in the prior year. No such impairment was recorded in fiscal year 2004.

Pretax income for the year ended April 30, 2004 was $19.3 million compared to a loss of $14.1 million in fiscal year 2003.

Fiscal 2005 outlook

Our focus for fiscal year 2005 is growing the business within our current markets by expanding our services to existing clients and by targeting other mid-size companies in those areas. To achieve this goal, we began the development of a national sales force in fiscal year 2004 and we plan to continue to roll this initiative out in fiscal year 2005. Additionally, in May 2004 we initiated new marketing efforts designed to promote brand awareness and the services we offer. We have no major acquisition plans for fiscal year 2005.

Fiscal 2003 compared to fiscal 2002

Business Services' revenues for fiscal year 2003 improved $17.2 million, or 4.1%, over fiscal year 2002. This increase was primarily due to the acquisition of Equico Resources, LLC ("EquiCo") in December 2001, which contributed an increase of $24.9 million over fiscal year 2002. Revenues from traditional accounting services declined $13.1 million over fiscal year 2002 as a result of a 20.0% reduction in tax planning services sold and lower revenues per unit sold. This decline was somewhat offset by growth in core accounting and tax services, driven primarily by an increase in the net collected rate per hour. Additionally, fiscal year 2003 was the first year there was no significant year-over-year growth related to new acquisitions. In fiscal year 2003 we acquired only a few businesses to add scale to existing offices and only one new location was added, resulting in an increase of $1.7 million in revenues.

Deferred revenue increased $12.2 million in fiscal year 2003 due to a backlog of scheduled capital markets platforms resulting from staffing shortages.

Total expenses increased $54.0 million, or 13.7%, over fiscal year 2002. Compensation and benefits costs increased $26.3 million and occupancy and equipment costs increased $4.5 million, primarily as a result of the EquiCo and MyBenefitSource, Inc. ("MBS") acquisitions in December 2001. Other expenses increased by $9.8 million primarily due to

increased legal and travel expenses, both related to EquiCo and MBS. As part of our annual goodwill impairment testing, an impairment charge of $11.8 million was recorded related to MBS in fiscal year 2003.

The pretax loss for fiscal year 2003 was $14.1 million compared to pretax income of $22.7 million in fiscal year 2002.

INVESTMENT SERVICES

This segment is primarily engaged in offering advice-based investment services and securities products. Our integration of investment advice and new product offerings have allowed us to shift our focus from a transaction-based client relationship to a more advice-based focus.

Investment Services – Operating Statistics

Year ended April 30,	**2004**	2003	2002
Customer trades (1)	**1,514,969**	1,218,092	1,536,930
Daily average trades	**5,918**	4,853	6,123
Average revenue per trade (2)	**$ 119.36**	$ 120.15	$ 106.42
Active accounts	**863,116**	752,903	695,355
Assets under administration (billions)	**$ 26.7**	$ 22.3	$ 27.3
Average assets per active account	**$ 30,970**	$ 29,616	$ 39,261
Ending margin balances (millions)	**$ 608**	$ 486	$ 801
Ending customer payables balances (millions)	**$ 1,007**	$ 848	$ 825
Number of advisors (3)	**1,009**	984	1,211
Included in the numbers above are the following relating to fee-based accounts:			
Customer accounts	**6,964**	4,680	3,339
Average revenue per account	**$ 1,572**	$ 1,442	$ 449
Assets under administration (millions)	**$ 1,494**	$ 789	$ 512
Average assets per active account	**$ 214,537**	$ 168,522	$ 153,323

(1) Includes both trades on which commissions are earned ("commissionable trades") and trades for which no commission is earned ("fee-based trades"). Excludes open-ended mutual fund redemptions.
(2) Calculated as total commissions divided by commissionable trades.
(3) Fiscal year 2003 and 2002 advisors have been adjusted to exclude sales assistants.

Investment Services – Financial Results (in 000s)

Year ended April 30,	**2004**	2003	2002
Transactional revenue	**$101,634**	$ 93,422	$123,990
Annuitized revenue	**59,696**	37,358	25,677
Production revenue	**161,330**	130,780	149,667
Other revenue	**34,732**	32,714	33,169
Non-interest revenue	**196,062**	163,494	182,836
Margin interest revenue	**33,408**	37,300	67,849
Less: interest expense	**(1,358)**	(4,830)	(14,744)
Net interest revenue	**32,050**	32,470	53,105
Total revenues (1)	**228,112**	195,964	235,941
Commissions	**53,851**	41,748	46,490
Other variable expenses	**3,866**	4,234	9,266
Total variable expenses	**57,717**	45,982	55,756
Gross profit	**170,395**	149,982	180,185
Compensation and benefits	**97,151**	92,978	93,314
Occupancy and equipment	**29,054**	30,323	29,106
Depreciation and amortization	**45,129**	51,791	49,866
Impairment of goodwill	**–**	24,000	–
Other	**44,426**	63,933	48,067
Allocated corporate and shared costs	**19,081**	15,249	14,694
Total fixed expenses	**234,841**	278,274	235,047
Pretax loss	**$ (64,446)**	$(128,292)	$ (54,862)

(1) Total revenues, less interest expense

Fiscal 2004 compared to fiscal 2003

Investment Services' revenues, net of interest expense, for fiscal year 2004 increased $32.1 million, or 16.4%, over the prior year. The improvement is primarily due to the increase in annuitized revenues.

Transactional revenue, which is based on transaction or trade quantities, increased $8.2 million, or 8.8%, from the prior year due to a 24.4% increase in trading activity, partially offset by a slight decline in average revenue per trade. Annuitized revenues increased $22.3 million, or 59.8%, due to increased sales of annuities and mutual funds. The increase in production revenues is also due to an increase in advisor productivity. We added a net 25 advisors this year and advisor productivity continues to improve. Productivity averaged approximately $166,000 per advisor compared to $122,000 last year.

Margin interest revenue declined $3.9 million, or 10.4%, from the prior year primarily as a result of a 5.5% decline in average margin balances coupled with lower interest rates. Margin balances declined from an average of $577.0 million in fiscal year 2003 to $545.0 million in the current year. Accordingly, interest expense for fiscal year 2004 declined $3.5 million, or 71.9%, from fiscal year 2003. Margin balances, which steadily declined during most of 2003, have steadily increased in the last several months of fiscal year 2004 and averaged $600.0 million for the fourth quarter.

Total expenses decreased $31.7 million, or 9.8%, primarily due to the $24.0 million goodwill impairment charge recorded last year. Other expenses decreased $19.5 million primarily as a result of a reduction in consulting and legal expenses. These decreases were partially offset by a $12.1 million increase in commissions expense due to the increase in customer trading and higher average commissions paid.

The pretax loss for Investment Services for fiscal year 2004 was $64.4 million compared to a loss of $128.3 million last year.

Fiscal 2005 outlook

We believe the key to segment profitability is the recruitment and retention of experienced financial advisors. See additional discussion of our advisor production in Item 1, “Description of Business.” Our goal is to hire 250-300 experienced advisors in fiscal year 2005. We are also partnering with the U.S. Tax Operation segment in the LRTP program, which focuses on adding advice to our tax client relationships through licensing and aligning tax professionals with financial advisors. See additional discussion above in U.S. Tax Operations outlook section.

Although we expect to see continued improvements in our financial performance, we still expect to report an operating loss for fiscal year 2005.

Fiscal 2003 compared to fiscal 2002

Investment Services’ revenues, net of interest expense, for fiscal year 2003 declined $40.0 million, or 16.9%, compared to fiscal year 2002. The decrease was primarily due to lower net interest income and lower transactional revenues.

Transactional revenue decreased $30.6 million, or 24.7%, from the prior year due to a 20.7% decline in trading activity, partially offset by an increase in average revenue per trade. Additionally, syndicate fee revenues of $6.7 million were included in Other revenues for fiscal year 2003 and in fiscal year 2002 they were included in Transactional revenue. Annuitized revenues increased $11.7 million, or 45.5%, due to increased sales of annuities and mutual funds.

Margin interest revenue declined $30.5 million, or 45.0%, from fiscal year 2002 primarily as a result of a 42.3% decline in average margin balances coupled with lower interest rates. Margin balances declined from an average of $1.0 billion for fiscal year 2002 to $577.0 million in 2003. Accordingly, interest expense for fiscal year 2003 declined $9.9 million, or 67.2%, from fiscal year 2002.

Total expenses increased $33.5 million, or 11.5%, primarily due to a $24.0 million goodwill impairment charge recorded during fiscal year 2003. During the first quarter of fiscal year 2003, in light of unsettled market conditions and the severe decline of comparable business valuations in the investment industry, we engaged an independent valuation firm to perform the goodwill impairment test, in accordance with Statement of Financial Accounting Standards No. 142, “Goodwill and Other Intangible Assets,” on the Investment Services segment. As a result, the $24.0 million impairment charge was recorded.

Additional expense increases resulted from various new initiatives to expand products and the business, including the installation of a new back office brokerage operating system, relocation to new offices and advisor recruitment initiatives. These increases were partially offset by a decrease in commissions expense due to the decline in customer trading and cost containment measures.

As a result of meeting certain three-year production goals established in connection with the acquisition of OLDE Financial, certain long-term advisors were eligible to receive a one-time retention payment. The retention period was through December 31, 2002. Retention payments under this plan of approximately $17.0 million were accrued through the third quarter of fiscal year 2003. The retention payments were paid out in February 2003.

The pretax loss for Investment Services for fiscal year 2003 was $128.3 million compared to the prior year loss of $54.9 million.

INTERNATIONAL TAX OPERATIONS

This segment is primarily engaged in providing local tax return preparation, filing and related services in Canada, Australia and the United Kingdom. In addition, International Tax Operations includes Overseas operations, which consists of company-owned and franchise offices preparing tax returns for U.S. citizens living abroad.

Operations in this segment are transacted in the local currencies of the countries in which they operate, therefore the results can be affected by the translation into U.S. dollars. The weakening of the U.S. dollar during the current year had the impact of increasing reported revenues, income and losses.

International Tax Operations – Financial Results (in 000s)

Year ended April 30,	**2004**	2003	2002
Canada	**$64,238**	$57,985	$55,753
Australia	**26,577**	20,614	17,701
Other	**6,745**	6,483	5,256
Total revenues	**97,560**	85,082	78,710
Canada	**8,888**	8,108	7,728
Australia	**4,609**	3,802	2,912
Other	**(2,400)**	(1,446)	(3,547)
Pretax income	**$11,097**	$10,464	$ 7,093

Fiscal 2004 compared to fiscal 2003

International Tax Operations’ revenues for the year ended April 30, 2004 increased $12.5 million, or 14.7%, compared to the prior year. This improvement is due to results in Canada and Australia. Revenues in Canada increased $6.3 million, or 10.8%, entirely as a result of favorable foreign exchange rates. Revenues in Canadian dollars declined 0.4% primarily due to a 3.5% decline in the average charge per return, somewhat offset by an increase in company-owned tax returns prepared, most of which were discounted returns. The decline in average charge resulted from our current year marketing program, which was designed to attract students and younger filers. Of the $6.0 million increase in Australian revenues, $4.9 million was due to favorable foreign exchange rates. Additionally, tax returns prepared in company-owned offices in fiscal year 2004 increased 3.7% compared to the prior year and the average charge per return increased 2.0%.

Pretax income improved $0.6 million, or 6.1%, primarily due to exchange rates, as earnings in local currencies were similar to the prior year.

Fiscal 2003 compared to fiscal 2002

International Tax Operations’ revenues for the year ended April 30, 2003 increased $6.4 million, or 8.1%, compared to fiscal year 2002. This improvement is primarily due to results in Australia, where tax returns prepared in company-owned offices in fiscal year 2003 increased 3.7% compared to 2002 and the average charge per return increased 3.0%. Revenues in Canada increased $2.2 million, or 4.0%, entirely as a result of foreign exchange rates. Revenues in Canadian dollars declined 2.3% primarily due to the sale of certain operations during 2003 and a decline in the number of returns prepared. Tax returns prepared declined 3.7% as a result of increased competition in the major metropolitan areas.

Pretax income improved $3.4 million, or 47.5%, primarily due to cost savings in the United Kingdom as a result of business restructuring and the write-off of intangible assets in the prior year, which is included in “Other” in the above table.

CORPORATE OPERATIONS

This segment consists primarily of corporate support departments, which provide services to our operating segments. These support departments consist of marketing, information technology, facilities, human resources, executive, legal, finance, government relations and corporate communications. Support department costs are generally allocated to our operating segments. Our captive insurance, franchise financing and small business initiative subsidiaries are also included within this segment.

Corporate Operations – Financial Results (in 000s)

Year ended April 30,	**2004**	2003	2002
Operating revenues	**$ 12,532**	$ 6,448	$ 12,603
Eliminations	**(8,218)**	(7,099)	(6,830)
Total revenues	**4,314**	(651)	5,773
Corporate expenses:			
Compensation and benefits	**12,670**	14,959	14,703
Interest expense:			
Acquisition debt	**68,815**	72,766	79,002
Other interest	**693**	1,106	3,777
Marketing and advertising	**1,409**	4,518	4,600
Other	**36,299**	33,438	36,392
	119,886	126,787	138,474
Support departments:			
Information technology	**110,569**	92,899	84,834
Marketing	**110,507**	88,819	85,087
Finance	**33,829**	30,232	19,795
Other	**78,521**	65,730	58,749
	333,426	277,680	248,465
Allocation of corporate and shared costs	**(336,639)**	(280,677)	(247,106)
Investment income, net	**4,691**	2,436	3,097
Pretax loss	**$(107,668)**	$(122,005)	$(130,963)

Fiscal 2004 compared to fiscal 2003

Corporate Operations' revenues increased $5.0 million primarily as a result of operating capital gains of $1.0 million in the current year compared to a $2.0 million write-off of investments at our captive insurance subsidiary and improved results from our small business subsidiary.

Corporate expenses declined $6.9 million, or 5.4%, due primarily to lower interest expense. Interest expense on acquisition debt declined as a result of lower financing costs and a scheduled payment of $45.1 million in August 2003.

Information technology department expenses increased $17.7 million, or 19.0%, primarily due to additional resources needed to support additional projects on behalf of the operating segments and other support departments. Marketing department expenses increased $21.7 million, or 24.4%, primarily as a result of marketing initiatives for U.S. Tax Operations directed toward our brand repositioning and raising consumer awareness of our advice offerings.

The pretax loss was $107.7 million, compared with last year's loss of $122.0 million.

Our effective income tax rate for fiscal year 2004 decreased to 39.5% compared to 41.2% in fiscal year 2003, primarily as a result of non-deductible goodwill impairment charges recorded in the prior year.

Fiscal 2003 compared to fiscal 2002

Corporate Operations' revenues declined $6.4 million primarily as a result of a $4.2 million decrease in operating interest income and a $2.0 million write-off of investments at our captive insurance subsidiary.

Corporate expenses declined $11.7 million, or 8.4%, due primarily to lower interest expense. Interest expense on acquisition debt declined as a result of lower financing costs and a payment of $39.8 million in August 2002.

Information technology department expenses increased $8.1 million, or 9.5%, primarily due to a 20.5% increase in department personnel to support additional projects on behalf of the operating segments. Finance department expenses increased $10.4 million, or 52.7%, primarily as a result of $4.7 million in increased insurance costs and $2.4 million in additional consulting fees over fiscal year 2002.

The pretax loss was $122.0 million, compared with the fiscal year 2002 loss of $131.0 million.

Our effective income tax rate for fiscal year 2003 increased to 41.2% compared to 39.4% in fiscal year 2002, primarily as a result of non-deductible goodwill impairment charges recorded in 2003.

FINANCIAL CONDITION

CAPITAL RESOURCES & LIQUIDITY BY SEGMENT

Our sources of capital include cash from operations, issuances of common stock and debt. We use capital primarily to fund working capital requirements, pay dividends, repurchase our shares and acquire businesses.

Cash From Operations. Operating cash flows totaled $926.8 million, $690.8 million and $741.4 million in fiscal years 2004, 2003 and 2002, respectively. Operating cash flows in fiscal year 2004 improved compared to fiscal year 2003 due to an increase of $117.8 million in net income and increased cash flows from both Mortgage Operations and U.S. Tax Operations. Mortgage Operations contributed $278.5 million to cash from operations in the current year compared to $145.0 million in fiscal year 2003. U.S. Tax Operations contributed $521.6 million in operating cash flows this year compared to $410.2 million in the prior year.

Issuances of Common Stock. We issue shares of our common stock in accordance with our stock-based compensation plans out of our treasury shares. Proceeds from the issuance of common stock totaled $120.0 million, $126.3 million and $195.2 million in fiscal years 2004, 2003 and 2002, respectively.

Dividends. We have consistently paid quarterly dividends. Dividends paid totaled $138.4 million, $125.9 million and $115.7 million in fiscal years 2004, 2003 and 2002, respectively.

Share Repurchases. On June 9, 2004, our Board of Directors approved an authorization to repurchase an additional 15 million shares. This authorization is in addition to the authorization of 20 million shares on June 11, 2003 and 15 million shares on September 12, 2001. During fiscal year 2004, we repurchased 10.6 million shares pursuant to these authorizations at an aggregate price of

$518.5 million or an average price of $48.90 per share. There were 11.3 million shares remaining under the 2003 authorization and no shares remaining under the 2001 authorization at the end of fiscal year 2004.

We plan to continue to purchase shares on the open market in accordance with these authorizations, subject to various factors including the price of the stock, the availability of excess cash, our ability to maintain liquidity and financial flexibility, securities laws restrictions and other investment opportunities available.

Acquisitions. We, from time to time, acquire businesses that are a good strategic fit to our organization. Significant acquisitions during fiscal year 2004 were the former major franchise territories we now operate as company-owned. Cash paid in fiscal year 2004 related to the acquisition of these territories totaled $243.2 million. Total cash paid for acquisitions was $280.9 million during fiscal year 2004 and $26.4 million during fiscal year 2003.

Restricted Cash. We hold certain cash balances that are restricted as to use. Cash and cash equivalents – restricted totaled $545.4 million at fiscal year end. Investment Services held $531.6 million of this total segregated in a special reserve account for the exclusive benefit of customers pursuant to Rule 15c3-3 of the Securities Exchange Act of 1934. The Investment Services restricted cash balance has grown from $400.1 million at the beginning of fiscal year 2004 as customer credit balances have increased at a faster pace than customer debit balances. Restricted cash of $13.2 million at April 30, 2004 held by Business Services is related to funds held to pay payroll taxes on behalf of its customers. Restricted cash held by Mortgage Operations totaled $0.6 million at April 30, 2004 as a result of cash held for outstanding commitments to fund mortgage loans.

Fiscal year 2005 outlook. We are planning on refinancing our $250.0 million in Senior Notes, which are due in November 2004.

We are also beginning construction on a new world headquarters facility during fiscal year 2005. Estimated construction costs during fiscal year 2005 of $18 million will be financed from operating cash flows.

A condensed consolidating statement of cash flows by segment for the fiscal year ended April 30, 2004 follows. Generally, interest is not charged on intercompany activities between segments. Detailed consolidated statements of cash flows are located in Item 8.

(in 000s)

	U.S. Tax Operations	Mortgage Operations	Business Services	Investment Services	International Tax Operations	Corporate Operations	Consolidated H&R Block
Cash provided by (used in):							
Operations	$ 521,646	$ 278,461	$ 61,875	$(28,200)	$ 19,458	$ 73,567	$ 926,807
Investing	(293,711)	219,111	(39,373)	(4,086)	(4,679)	(8,395)	(131,133)
Financing	–	–	(59,003)	–	(129)	(540,219)	(599,351)
Net intercompany	(188,699)	(546,609)	49,668	31,841	(13,831)	667,630	–

Net intercompany activities are excluded from investing and financing activities within the segment cash flows. We believe that by excluding intercompany activities, the cash flows by segment more clearly depicts the cash generated and used by each segment. Had intercompany activities been included, those segments in a net lending situation would have been included in investing activities, and those in a net borrowing situation would have been included in financing activities.

U.S. Tax Operations: U.S. Tax Operations has historically been our largest provider of annual operating cash flows. The seasonal nature of U.S. Tax Operations generally results in a large positive operating cash flow in the fourth quarter. U.S. Tax Operations generated $521.6 million in operating cash flows primarily related to net income, as cash is generally collected from clients at the time services are rendered. Cash requirements for investing activities of $293.7 million includes $243.2 million paid to former major franchisees.

Household and its designated bank provide funding of all RALs offered pursuant to a contract that expires in June 2006. If Household and its designated bank do not continue to provide funding for RALs, we could seek other RAL lenders to continue offering RALs to our clients or consider alternative funding strategies. We believe that a number of suitable lenders would be available to replace Household should the need arise.

We also believe that the RAL program is a productive product line for the Company and a useful product for our customers. The RAL program is regularly reviewed both from a business perspective and to ensure compliance with applicable state and federal laws. It is our intention to continue to offer the RAL program in the foreseeable future.

Loss of the RAL program could adversely affect our operating results. In addition to the loss of revenues and income directly attributable to the RAL program, the inability to offer RALs could indirectly result in the loss of retail tax clients and associated tax preparation revenues, unless we were able to take mitigating actions. Revenues from RAL participations were $168.4 million for the year ended April 30, 2004, and after direct costs, contributed $92.7 million to the segment's results. Total revenues related to the RAL program (including revenues from participation interests) were $174.2 million for the year ended April 30, 2004, representing 4.1% of consolidated revenues. Revenues related to the RAL program totaled $142.1 million for the year ended April 30, 2003, representing 3.8% of consolidated revenues.

Mortgage Operations: This segment primarily generates cash as a result of the sale and securitization of mortgage loans and residual interests and as its residual interests mature. Mortgage Operations provided $278.5 million in cash from operating activities primarily due to the sale of mortgage loans. This segment also generated $219.1 million in cash from investing activities primarily related to cash received from the maturity and sales of residual interests.

Gains on Sales. Gains on sales of mortgage loans and related assets totaled $726.7 million, of which 87% was received as cash. The cash was primarily recorded as operating activities.

The percent of gains on sales of mortgage assets received as cash is calculated as follows:

(in 000s)

Year ended April 30,	2004	2003	2002
Cash:			
Whole loans sold by the Trusts	**$ 721,957**	$ 347,241	$ 65,219
Loans securitized	**198,226**	389,449	414,844
Sale of previously securitized residuals	**40,689**	130,881	–
Loan origination expenses, net	**(325,605)**	(203,511)	(116,699)
	635,267	664,060	363,364
Non-cash:			
Retained mortgage servicing rights	**84,274**	60,078	52,844
Additions (reductions) to balance sheet (1)	**11,490**	(10,829)	22,910
Changes in beneficial interest in Trusts	**37,918**	74,987	17,028
Impairments to fair value of residual interests	**(30,661)**	(54,111)	(30,987)
Net change in fair value of rate-lock commitments	**(11,570)**	6,158	(758)
	91,451	76,283	61,037
Reported gains on sales of mortgage assets	**$ 726,718**	$ 740,343	$ 424,401
% of gains received as cash	**87%**	90%	86%

(1) Includes residual interests and interest rate caps.

Another important measure of cash generation is the percentage of cash proceeds we receive from our capital market transactions. These amounts are also included within the gain on sale of mortgage assets as reconciled below. The percent calculation is as follows:

(in 000s)

Year ended April 30,	2004	2003	2002
Cash proceeds:			
Whole loans sold by the Trusts	**$ 721,957**	$ 347,241	$ 65,219
Loans securitized	**198,226**	389,449	414,844
Sale of previously securitized residuals	**40,689**	130,881	–
	960,872	867,571	480,063
Non-cash:			
Retained mortgage servicing rights	**84,274**	60,078	52,844
Additions (reductions) to balance sheet (1)	**11,490**	(10,829)	22,910
	95,764	49,249	75,754
Portion of gain on sale related to capital market transactions	**$1,056,636**	$ 916,820	$ 555,817
Other items included in gain on sale:			
Changes in beneficial interest in Trusts	**37,918**	74,987	17,028
Impairments to fair value of residual interests	**(30,661)**	(54,111)	(30,987)
Net change in fair value of rate-lock commitments	**(11,570)**	6,158	(758)
Loan origination expenses, net	**(325,605)**	(203,511)	(116,699)
	(329,918)	(176,477)	(131,416)
Reported gains on sales of mortgage assets	**$ 726,718**	$ 740,343	$ 424,401
% of gain on sale related to capital market transactions received as cash (2)	**91%**	95%	86%

(1) Includes residual interests and interest rate caps.

(2) Cash proceeds divided by portion of gain on sale related to capital market transactions.

Warehouse Funding. We regularly sell loans as a source of liquidity. Loan sales in fiscal year 2004 were $23.2 billion compared with $17.2 billion in fiscal year 2003. Additionally, Block Financial Corporation (“BFC”) provides an additional $150 million line of credit for working capital needs.

To finance our prime originations, we utilize a warehouse facility with capacity up to $50 million. This annual facility is currently in the final stage of renegotiation, during which time the original maturity has been extended on a month-to-month basis. This facility bears interest at one-month LIBOR plus 64 to 175 basis points. As of April 30, 2004 and 2003, the balance outstanding under this facility was $4.0 million and $6.3 million, respectively, and is included in accounts payable, accrued expenses and other on the consolidated balance sheets.

See discussion of our non-prime warehouse facilities below in “Off-Balance Sheet Financing Arrangements.”

We believe the sources of liquidity available to the Mortgage Operations segment are sufficient for its needs. Risks to the stability of these sources include, but are not limited to, adverse changes in the perception of the non-prime industry, adverse changes in the regulation of non-prime lending, changes in the rating criteria of non-prime lending by third-party rating agencies and, to a lesser degree, reduction in the availability of third parties that provide credit

enhancement. Past performance of the securitizations will also impact the segment's future participation in these markets. The five off-balance sheet warehouse facilities used by the Trusts, which have a total current capacity of $7.0 billion, are subject to annual renewal, each at a different time during the year, and any of the above events could lead to difficulty in renewing the lines. These risks are mitigated by a staggering of the renewal dates related to these warehouse lines and through the use of multiple lending institutions to secure these lines.

Business Services: Business Services funding requirements are largely related to receivables for completed work and "work in process." We provide funding sufficient to cover their working capital needs. Business Services also has future obligations and commitments, which are summarized in the tables below under "Contractual Obligations and Commercial Commitments."

This segment generated $61.9 million in operating cash flows primarily related to the collection of receivables and net income. Additionally, Business Services used $39.4 million in investing activities primarily related to contingent payments on prior acquisitions, and $59.0 million in financing activities as a result of payments on acquisition debt.

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

HRBFA is required to maintain minimum net capital as defined under Rule 15c3-1 of the Securities Exchange Act of 1934 and complies with the alternative capital requirement, which requires a broker-dealer to maintain net capital equal to the greater of $250,000 or 2% of the combined aggregate debit balances arising from customer transactions. The net capital rule also provides that equity capital may not be withdrawn or cash dividends paid if resulting net capital would be less than the greater of 5% of combined aggregate debit items or 120% of the minimum required net capital. At the end of fiscal year 2004, HRBFA's net capital of $115.5 million, which was 17.6% of aggregate debit items, exceeded its minimum required net capital of $13.2 million by $102.3 million. During fiscal year 2004, we contributed additional capital of $32.0 million, even though HRBFA was in excess of the minimum net capital requirement, and we may continue to do so in the future.

In fiscal year 2004, Investment Services used $28.2 million in its operating activities primarily due to the timing of cash deposits that are restricted for the benefit of customers.

To manage short-term liquidity, BFC provides HRBFA a $300 million unsecured credit facility. At the end of fiscal year 2004 there was no outstanding balance on this facility.

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

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

To satisfy the margin deposit requirement of client option transactions with the Options Clearing Corporation ("OCC"), Investment Services pledges customers' margined securities. Pledged securities at the end of fiscal year 2004 totaled $46.3 million, an excess of $7.9 million over the margin requirement. Pledged securities at the end of fiscal year 2003 totaled $39.7 million, an excess of $4.3 million over the margin requirement.

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

International Tax Operations: International Tax Operations generated $19.5 million in cash flows from operating activities primarily due to its net income as cash is generally collected from clients when services are rendered.

International Tax Operations are generally self-funded. Cash balances are held in Canada, Australia and the United Kingdom independently in local currencies. Block Canada has a commercial paper program up to $125 million (Canadian). At April 30, 2004, there was no commercial paper outstanding. The peak borrowing during fiscal year 2004 was $61.0 million (Canadian).

OFF-BALANCE SHEET FINANCING ARRANGEMENTS

We are party to various transactions with an off-balance sheet component, including loan commitments and QSPEs, or Trusts.

We have commitments to fund mortgage loans in our pipeline of $2.6 billion at April 30, 2004, which are subject to conditions and loan contract verification. There is no commitment on the part of the borrower to close and fund on the mortgage loan at this stage of the lending process and external market forces impact the probability of these loan commitments being closed. Therefore, total commitments outstanding do not necessarily represent future cash requirements. If the loan commitments are exercised, they will be funded as described below.

Our relationships with the Trusts serve to reduce our capital investment in our non-prime mortgage operations. These arrangements are primarily used to sell mortgage loans, but a portion may also be used to sell servicing advances and finance residual interests. Additionally, these arrangements have freed up cash and short-term borrowing capacity, improved liquidity and flexibility, and reduced balance sheet risk, while providing stability and access to liquidity in the secondary market for mortgage loans.

Substantially all non-prime mortgage loans we originate are sold daily to the Trusts. The Trusts purchase the loans from us utilizing five warehouse facilities, arranged by us, totaling $7.0 billion. These facilities are subject to various Option One performance triggers, limits and financial covenants, including tangible net worth and leverage ratios. In addition, these facilities contain cross-default features in which a default in one facility would trigger a default under the other facilities as well. These various facilities bear interest at one-month LIBOR plus 50 to 100 basis points and expire on various dates during the year.

When we sell loans to the Trusts, we remove the mortgage loans from our balance sheet and record the gain on the sale, cash and a beneficial interest in Trusts, which represents the ultimate expected outcome from the disposition of the loans. Our beneficial interest in Trusts totaled $137.8 million and $122.1 million at April 30, 2004 and 2003, respectively.

Subsequently, the Trusts, as directed by their third-party beneficial interest holders, either sell the loans directly to third-party investors or back to us to pool the loans for securitization. The decision to complete a whole loan sale or a securitization is dependent on market conditions.

For fiscal year 2004, the final disposition of loans was 24% securitizations and 76% whole loan sales. For fiscal year 2003, the final disposition was 59% securitizations and 41% whole loan sales. The current year shift to whole loan sales is due to the more favorable pricing in the whole loan market. Increased whole loan sale transactions result in cash being received earlier. Additionally, whole loan sales do not add residual interests to our balance sheet, and therefore do not retain balance sheet risk.

If the Trusts choose to sell the mortgage loans in a whole loan sale, we receive cash for our beneficial interest in Trusts. In a securitization transaction, after the Trusts transfer the loans, and the right to receive all payments on the loans, to our consolidated special purpose entity, we transfer our beneficial interest in Trusts and the loans to a securitization trust. The securitization trust meets the definition of a QSPE and is therefore not consolidated. The securitization trust issues bonds, which are supported by the cash flows from the pooled loans, to third-party investors. We retain an interest in the loans in the form of a residual interest and, therefore, usually assume the first risk of loss for credit losses in the loan pool. As the cash flows of the underlying loans and market conditions change, the value of our residual interests may also change, resulting in potential write-ups or impairment of our residual interests.

At the settlement of each securitization, we record cash received and our residual interests. Additionally, we reverse the beneficial interest in Trusts. These residual interests are classified as trading securities. See Item 8, note 1 to our consolidated financial statements for our methodology used in valuing our residual interests.

To accelerate the cash flows from our residual interests, we securitize the majority of our residual interests in net interest margin (“NIM”) transactions. In a NIM transaction, the residual interests are transferred to another QSPE (“NIM trust”), which then issues bonds to third-party investors. The proceeds from the bonds are returned to us as payment for the residual interests. The bonds are secured by the pooled residual interests and are obligations of the NIM trust. We retain a subordinated interest in the NIM trust, and receive cash flows on our residual interest generally after the bonds issued to the third-party investors are paid in full.

At the settlement of each NIM transaction, we remove the residual interests sold from our consolidated balance sheet and record the cash received and the new residual interest retained. These residual interests are classified as available-for-sale securities.

Residual interests retained from NIM securitizations may also be sold in a subsequent securitization or sale transaction.

Loans totaling $3.2 billion and $2.2 billion were held by the Trusts as of April 30, 2004 and 2003, respectively, and were not recorded on our consolidated balance sheets.

In connection with the sale of mortgage loans, we provide certain representations and warranties allowing the purchaser the option of returning the purchased loans to us under certain conditions. We may recognize losses as a result of the repurchase of loans under these arrangements. We maintain reserves for the repurchase of loans based on historical trends. See Item 8, note 19 to our consolidated financial statements.

The Financial Accounting Standards Board (“FASB”) has decided to reissue its exposure draft, “Qualifying Special Purpose Entities and Isolation of Transferred Assets, an Amendment of FASB Statement No. 140,” during the third quarter of calendar year 2004. The purpose of the proposal is to provide more specific guidance on the accounting for transfers of financial assets to a QSPE.

Provisions in the first exposure draft, as well as the tentative decision reached by the FASB during its deliberations, may require us to consolidate the Trusts to whom we sell our non-prime loans daily. As of April 30, 2004, the Trusts had assets and liabilities of $3.2 billion. The provisions of the exposure draft are subject to FASB due process and are subject to change. We will continue to monitor the status of the exposure draft, and consider changes, if any, to current structures as a result of the proposed rules.

COMMERCIAL PAPER ISSUANCE

We participate in the United States and Canadian commercial paper (“CP”) markets to meet daily cash needs. CP is issued by BFC and Block Canada, wholly-owned subsidiaries of the Company. The following chart provides the debt ratings for BFC as of April 30, 2004 and 2003:

	Short-term	Long-term
Fitch	F1	A
Moody’s	P2	A3
S&P	A2	BBB+

The following chart provides the debt ratings for Block Canada as of April 30, 2004 and 2003:

	Short-term	Corporate	Trend
DBRS	R-1(low)	A	Stable
Moody’s	P		2

We use capital primarily to fund working capital requirements, pay dividends, repurchase our shares and acquire businesses. Short-term borrowings peaked at $2.3 billion in February 2004 related to funding of our participation interests in RALs. No CP was outstanding at April 30, 2004 or 2003.

U.S. CP issuances are supported by an unsecured committed line of credit (“CLOC”) from a consortium of twenty-four banks. The $2.0 billion CLOC is subject to annual renewal in August 2004 and has a one-year term-out provision with a maturity date in August 2005. This line is subject to various affirmative and negative covenants. This CLOC includes $1.5 billion for CP back-up and general corporate purposes and $500 million for working capital use, general corporate purposes and CP back-up. An additional line of credit of $500 million was put into place for the period of January 26 to February 25, 2004 to back-up peak CP issuance. This line is subject to various covenants, substantially similar to the primary CLOC. These CLOCs were undrawn at April 30, 2004. There are no rating contingencies under the CLOCs.

The Canadian issuances are supported by a credit facility provided by one bank in an amount not to exceed $125 million (Canadian). The Canadian CLOC is subject to annual renewal in December 2004. This CLOC was undrawn at April 30, 2004.

We believe the CP market to be stable. Risks to the stability of our CP market participation would be a short-term rating downgrade, adverse changes in our financial performance, non-renewal or termination of the CLOCs, adverse publicity and operational risk within the CP market. We believe if any of these events were to occur, the CLOCs, to the extent available, could be used for an orderly exit from the CP market, though at a higher cost to us. Additionally, we could turn to other sources of liquidity, including cash, debt issuance under the existing shelf registration and asset sales or securitizations.

CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS

A summary of our obligations to make future payments as of April 30, 2004 is as follows:

(in 000s)

	Total	Less Than 1 Year	1 - 3 Years	4 - 5 Years	After 5 Years
Debt	$ 748,200	$249,975	$498,225	$ –	$ –
Long-term obligation to government	279,976	–	186,651	93,325	–
Acquisition payments	60,768	25,257	34,963	548	–
Pension obligation assumed	17,511	2,826	5,048	4,176	5,461
Capital lease obligations	12,512	437	1,035	1,132	9,908
Operating leases	597,883	199,292	258,385	91,609	48,597
Total contractual cash obligations	$1,716,850	$477,787	$984,307	$190,790	$63,966

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

In October 1997, we issued $250 million of 6 3/4% Senior Notes, due 2004. The Senior Notes are not redeemable prior to maturity. The net proceeds of this transaction were used to repay short-term borrowings that initially funded the acquisition of Option One. These Senior Notes are included in the current portion of long-term debt on our consolidated balance sheet. We plan to refinance these Senior Notes during fiscal year 2005.

Also included in debt are future payments related to Business Services acquisitions and capital lease obligations. Our debt to total capital ratio was 30.3% at April 30, 2004, compared with 34.5% at April 30, 2003.

As of April 30, 2004, we had $250 million remaining under our shelf registration available for additional debt issuance.

In connection with our acquisition of the non-attest assets of M&P in August 1999, we assumed certain pension liabilities related to M&P's retired partners. We make payments in varying amounts on a monthly basis. Included in other noncurrent liabilities at April 30, 2004 and 2003 are $17.5 million and $19.5 million, respectively, related to this liability.

Operating leases, although requiring future cash payments, are not included in our consolidated balance sheets.

A summary of our commitments as of April 30, 2004, which may or may not require future payments, expire as follows:

(in 000s)

	Total	Less Than 1 Year	1 - 3 Years	4 - 5 Years	After 5 Years
Commitments to fund mortgage loans	$2,605,878	$2,605,878	$ –	$ –	$ –
Commitments to sell mortgage loans	4,748,994	4,748,994	–	–	–
Pledged securities	46,340	46,340	–	–	–
Commitment to fund M&P	40,000	40,000	–	–	–
Franchise Equity Lines of Credit	26,990	9,149	5,995	11,846	–
Mortgage loan repurchase obligations	25,168	25,168	–	–	–
Other commercial commitments	10,255	5,880	3,595	780	–
Total commercial commitments	$7,503,625	$7,481,409	$9,590	$12,626	$ –

See discussion of commitments in Item 8, note 19 to our consolidated financial statements.

REGULATORY ENVIRONMENT

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

NEW ACCOUNTING PRONOUNCEMENTS

See Item 8, note 1 to our consolidated financial statements for a discussion of recently issued accounting pronouncements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

General

Interest Rate Risk. We have established investment guidelines to help minimize the market risk exposure of our cash equivalents and available-for-sale securities. These guidelines focus on managing liquidity, preservation of principal and earnings, which are primarily affected by credit quality and movements in interest rates. Most of our interest rate-sensitive assets and liabilities are managed at the subsidiary level.

Our cash equivalents are primarily held for liquidity purposes and are comprised of high quality, short-term investments, including qualified money market funds. As of April 30, 2004, our non-restricted cash and cash equivalents had an average maturity of less than one month with an average credit quality of AAA. With such a short maturity, our portfolio's market value is relatively insensitive to interest rate changes.

We use capital primarily to fund working capital requirements, pay dividends, repurchase our shares and acquire businesses. At April 30, 2004, no commercial paper was outstanding. For fiscal year 2004, the average issuance term was 23 days and the average outstanding balance was $279.7 million. As commercial paper borrowings are seasonal, interest rate risk typically increases through our third fiscal quarter and declines to zero by fiscal year-end. See Item 7, "Financial Condition" for additional information.

Our current portion of long-term debt and long-term debt at April 30, 2004 consists primarily of fixed-rate Senior Notes; therefore, a change in interest rates would have no impact on consolidated pretax earnings. See Item 8, note 10 to our consolidated financial statements.

We have exposure to interest rate risk through our investment in fixed income securities at our captive insurance subsidiary and our broker-dealer. See table below for sensitivities to changes in interest rates. Additionally, we have exposure to interest rate risk in the financial instruments associated with Mortgage Operations.

Equity Price Risk. We have exposure to the equity markets in several ways. The largest exposures are through our deferred compensation plans, which have mismatches in asset and liability amounts and investment choices (both fixed-income and equity), as well as through equity investments at our captive insurance subsidiary. At April 30, 2004, the impact of a 10% market value change in the combined equity assets of the deferred compensation plans and the captive insurance subsidiary would be approximately $8.9 million, assuming no offset for the liabilities.

Mortgage Operations

Interest Rate Risk, Prime Mortgage Origination Operations. We regularly enter into rate-lock commitments with our customers to fund prime mortgage loans within specified periods of time. The fair value of rate-lock commitments and loans held for sale is calculated based on the current market pricing of short sales of FNMA, FHLMC and GNMA mortgage-backed securities and the coupon rates of the eligible loans. At April 30, 2004, we recorded a liability of $1.7 million related to rate-lock commitments.

We sell short FNMA, FHLMC and GNMA mortgage-backed securities to reduce the risk related to our prime commitments to fund fixed-rate loans. The position hedging certain, or all, of the fixed-rate mortgage loans is closed approximately 10-15 days prior to standard Public Securities Association ("PSA") settlement dates. At April 30, 2004, the Company recorded an asset of $2.1 million related to these instruments.

To finance our prime originations, we utilize a warehouse facility with capacity up to $50 million, which bears interest at one-month LIBOR plus 64 to 175 basis points. As of April 30, 2004, the balance outstanding under this facility was $4.0 million.

Interest Rate Risk, Non-prime Mortgage Origination Operations. Interest rate changes will impact the value of the loans in the origination pipeline, beneficial interest in Trusts and the forward loan sale commitments. Additionally, our accretion earned on our beneficial interest in Trusts may be affected.

We are exposed to interest rate risk associated with loans in the origination pipeline, consisting of fixed- and adjustable-rate loans, which will generally be sold, ultimately, through whole loan sales or securitizations. We have binding commitments ($.6 billion) and non-binding commitments ($2.0 billion) to fund mortgage loans at April 30, 2004, subject to conditions and loan contract verification. Of these commitments, external market forces impact the probability of the loans being funded and we estimate only $1.3 billion will likely be originated.

As a result of whole loan sales to the Trusts, we remove the mortgage loans from our balance sheet and record the gain on sale, cash and a beneficial interest in Trusts, which represents the ultimate expected outcome from the disposition of the loans. See Item 7, "Off-Balance Sheet Financing Arrangements." At April 30, 2004, there were $3.2 billion of loans held in the Trusts and the value of our beneficial interest in Trusts was $137.8 million. Changes in interest rates and other market factors may result in a change in value of our beneficial interest in Trusts.

We use forward loan sale commitments to reduce risk associated with loans in the pipeline and our beneficial interest in Trusts. These commitments, which represent an obligation to sell a non-prime loan at a specific price in the future, increase in value as interest rates rise and decrease as rates fall. At April 30, 2004, there were $4.7 billion in forward loan sale commitments, and most of them give us the option to under- or over-deliver by five to ten percent. Forward loan sale commitments for non-prime loans are not considered derivative instruments and are therefore not recorded in our financial statements. Forward loan sale commitments lock in the execution price-net gain on sale on the loans which will ultimately be delivered into a whole loan sale.

We also have used interest rate swaps to reduce interest rate risk associated with non-prime loans in our pipeline prior to ultimate disposition. Interest rate swaps represent an agreement to exchange interest rate payments, whereby we generally receive a floating rate and pay the fixed rate. These contracts increase in value as rates rise and decrease in value as rates fall. There were no swaps outstanding at April 30, 2004.

Prime and non-prime loans, as well as rate-locks associated with prime loans, have interest rate risk if interest rates rise before the loan is sold or hedged and the rate on the loan does not change. With $4.7 billion of forward loan sale commitments (and the option to adjust the commitment amount between $4.5 to $5.0 billion), netting against pipeline loans estimated at $1.3 billion and

the anticipated sale of $3.2 billion in loans by the Trusts, we believe the net risk position of loan origination operations at year end is relatively neutral to changes in interest rates.

Delivery Risk. We have exposure to delivery risk in our non-prime origination operations, which regularly enter into forward loan sale commitments prior to loans being originated. Additionally, it is possible that the loans originated will not meet the required characteristics of the forward loan sale commitments. Several remedies are available, however, use of the remedies could reduce the execution price or the effectiveness of the forward loan sale commitment as a hedge vehicle.

Residual Interests. Relative to modeled assumptions, an increase or decrease in interest rates would impact the value of our residual interests. Additionally, accretion income related to our residual interests may be affected. Residual interests bear the interest rate risk embedded within the securitization due to an initial fixed-rate period on the loans versus a floating-rate funding cost, and the on-going basis risk between the indices of the floating-rate assets and liabilities.

We enter into interest rate caps to mitigate interest rate risk associated with residual interests that are classified as trading securities because they will be sold in a subsequent NIM transaction, and to enhance the marketability of the NIM transactions. Interest rate caps represent a right to receive cash if interest rates rise above a contractual strike rate. Therefore, its value increases as interest rates rise. The interest rate used in our interest rate caps is based on LIBOR. There were no interest rate caps outstanding at April 30, 2004.

See table below for sensitivities to changes in interest rates for residual interests. See Item 8, note 6 to the consolidated financial statements for additional analysis of interest rate risk and other financial risks impacting residual interests.

It is our policy to utilize economic hedge vehicles only for the purpose of offsetting or reducing the risk of loss in earnings associated with a defined or quantified exposure.

Mortgage Servicing Rights. Declining mortgage rates may cause increased refinancing activity. Increased refinancing activity reduces the life of the loans underlying the residual interests and MSRs, thereby reducing their value. Just the opposite occurs in a rising rate environment, however, MSRs are recorded at the lower of cost or market value. Reductions in the value of these assets impact earnings through impairment charges. See Item 8, note 6 to our consolidated financial statements for further sensitivity analysis of the other assumptions.

Investment Services

Interest Rate Risk. HRBFA holds interest bearing receivables from customers, brokers, dealers and clearing organizations, which consist primarily of amounts due on margin transactions and are generally short-term in nature. We fund these short-term assets with short-term variable rate liabilities from customers, brokers and dealers, including stock loan activity. Although there may be differences in the timing of the re-pricing related to these assets and liabilities, we believe we are not significantly exposed to interest rate risk in this area. As a result, any change in interest rates would not materially impact our consolidated earnings.

Our fixed-income trading portfolio is affected by changes in market rates and prices. The risk is the loss of income arising from adverse changes in the value of the trading portfolio. We value the trading portfolio at quoted market prices and the market value of our trading portfolio at April 30, 2004 was approximately $13.6 million, net of securities sold short. See table below for sensitivities to changes in interest rates. With respect to our fixed-income securities portfolio, we manage our market price risk exposure by limiting concentration risk, maintaining minimum credit quality and limiting inventory to anticipated retail demand and current market conditions.

International Tax Operations

Foreign Exchange Rate Risk. Our cash and operations in international markets are exposed to movements in currency exchange rates. The currencies involved are the Canadian dollar, the Australian dollar and the British pound. We translate revenues and expenses related to these operations at the average of exchange rates in effect during the period. As currency exchange rates change, translation of the financial results into U.S. dollars does not presently materially affect, and has not historically materially affected, our consolidated financial results, although such changes do affect the year-to-year comparability of the operating results of our international businesses. We estimate a 10% change in foreign exchange rates by itself would impact consolidated pretax income in fiscal year 2004 by approximately $1.3 million and cash balances at April 30, 2004 by $6.1 million.

The sensitivities of certain financial instruments to changes in interest rates as of April 30, 2004 are as follows:

		(in 000s)				
	Fair Value at April 30, 2004	**- 50 Basis Points**	**+ 50 Basis Points**	**+ 100 Basis Points**	**+ 200 Basis Points**	**+ 300 Basis Points**
Residual interests in securitizations – available-for-sale	**$210,973**	**$45,449**	**$(18,563)**	**$(32,709)**	**$(46,527)**	**$(48,090)**
Investments at captive insurance subsidiary	**44,667**	**1,079**	**(1,069)**	**(1,591)**	**(3,146)**	**(4,667)**
Fixed income – trading (net)	**13,639**	**677**	**(637)**	**(1,228)**	**(2,271)**	**(3,164)**

The table above represents hypothetical instantaneous and sustained parallel shifts in interest rates and should not be relied on as an indicator of future expected results.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Management Report

We at H&R Block are guided by our core values of client focus, integrity, excellence, respect and teamwork. These values govern the manner in which we serve clients and each other, and are embedded in the execution and delivery of our financial reporting responsibilities to our shareholders. To that end, we maintain a comprehensive system of internal accounting controls designed to provide reasonable assurance the Company's assets are safeguarded against material loss from unauthorized use or disposition, and authorized transactions are properly recorded. We support an extensive program of internal audits and require the management teams of our individual subsidiaries to certify their respective financial information. Appropriate communication programs aimed at assuring our policies, procedures and principles of business conduct are understood and practiced by our associates are also an integral part of our control environment.

KPMG LLP audited our 2004 consolidated financial statements and PricewaterhouseCoopers LLP audited our 2003 and 2002 consolidated financial statements. Both issued unqualified opinions thereon. Their audits were conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States) and included an objective, independent review and testing of the system of internal controls necessary to express an opinion on the financial statements.

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

The financial information in this Annual Report, including the consolidated financial statements, is the responsibility of management. The consolidated financial statements have been prepared in accordance with generally accepted accounting principles and necessarily include certain amounts based on management's best estimates and judgments.

/s/ Mark A. Ernst

Mark A. Ernst, Chairman of the Board,
President and Chief Executive Officer

/s/ Melanie K. Coleman

Melanie K. Coleman, Vice President and
Corporate Controller

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of H&R Block, Inc.:

We have audited the accompanying consolidated balance sheet of H&R Block, Inc. and subsidiaries (the "Company") as of April 30, 2004, and the related consolidated income statement, statement of cash flows and statement of stockholders' equity for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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 audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of H&R Block, Inc. and subsidiaries as of April 30, 2004, and the results of their operations and their cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

As discussed in Note 1 to the financial statements, the Company changed its method of accounting to adopt Staff Accounting Bulletin No. 105, "Application of Accounting Principles to Loan Commitments," Emerging Issues Task Force Issue No. 00-21, "Revenue Arrangements with Multiple Deliverables," and Statement of Financial Accounting Standards No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure" during the year ended April 30, 2004.

/s/ KPMG LLP

June 9, 2004
Kansas City, Missouri

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of H&R Block, Inc.

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of income, of cash flows and of stockholders' equity present fairly, in all material respects, the financial position of H&R Block, Inc. and its subsidiaries (the "Company") at April 30, 2003, and the results of their operations and their cash flows for each of the two years in the period ended April 30, 2003 in conformity with accounting principles generally accepted in the United States of America. 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 of these statements in accordance with standards of the Public Company Accounting Oversight Board (United States). 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

/s/ PRICEWATERHOUSECOOPERS LLP

June 10, 2003

Kansas City, Missouri

CONSOLIDATED INCOME STATEMENTS

	Amounts in thousands, except per share amounts		
Year ended April 30,	**2004**	2003	2002
REVENUES:			
Service revenues	**$2,740,983**	$2,398,081	$2,345,307
Gains on sales of mortgage assets, net	**726,718**	740,343	424,401
Interest income	**379,064**	297,185	206,433
Product sales	**157,417**	123,510	115,505
Royalties	**184,882**	174,659	164,615
Other	**16,506**	12,679	29,440
	4,205,570	3,746,457	3,285,701
OPERATING EXPENSES:			
Employee compensation and benefits	**1,610,103**	1,387,731	1,298,159
Occupancy and equipment	**384,622**	345,960	305,387
Depreciation and amortization	**172,038**	161,821	155,386
Marketing and advertising	**188,317**	150,847	155,729
Interest	**84,556**	92,644	116,141
Supplies, freight and postage	**89,189**	88,748	75,710
Impairment of goodwill	**–**	35,777	–
Other	**522,442**	502,687	463,761
	3,051,267	2,766,215	2,570,273
Operating income	**1,154,303**	980,242	715,428
Other income, net	**9,854**	6,835	1,412
Income before taxes	**1,164,157**	987,077	716,840
Income taxes	**459,901**	407,013	282,435
Net income before change in accounting principle	**704,256**	580,064	434,405
Cumulative effect of change in accounting principle for multiple deliverable revenue arrangements, less taxes of $4,031	**(6,359)**	–	–
NET INCOME	**$ 697,897**	$ 580,064	$ 434,405
BASIC EARNINGS PER SHARE:			
Before change in accounting principle	**$ 3.98**	$ 3.23	$ 2.38
Cumulative effect of change in accounting principle	**(.04)**	–	–
Net income	**$ 3.94**	$ 3.23	$ 2.38
DILUTED EARNINGS PER SHARE:			
Before change in accounting principle	**$ 3.90**	$ 3.15	$ 2.31
Cumulative effect of change in accounting principle	**(.04)**	–	–
Net income	**$ 3.86**	$ 3.15	$ 2.31

See accompanying notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEETS

Amounts in thousands, except share and per share amounts

April 30,	**2004**	2003
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	**$ 1,071,676**	$ 875,353
Cash and cash equivalents – restricted	**545,428**	438,242
Receivables from customers, brokers, dealers and clearing organizations, net	**625,076**	517,037
Receivables, net	**347,910**	403,197
Prepaid expenses and other current assets	**371,209**	391,402
Total current assets	**2,961,299**	2,625,231
Residual interests in securitizations – available-for-sale	**210,973**	264,337
Beneficial interest in Trusts – trading	**137,757**	122,130
Mortgage servicing rights	**113,821**	99,265
Property and equipment, net	**279,220**	288,594
Intangible assets, net	**325,829**	341,865
Goodwill, net	**959,418**	714,215
Other assets	**391,709**	311,671
Total assets	**$ 5,380,026**	$ 4,767,308
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES:		
Current portion of long-term debt	**$ 275,669**	$ 55,678
Accounts payable to customers, brokers and dealers	**1,065,793**	862,694
Accounts payable, accrued expenses and other	**456,167**	468,933
Accrued salaries, wages and payroll taxes	**268,747**	210,629
Accrued income taxes	**405,667**	299,262
Total current liabilities	**2,472,043**	1,897,196
Long-term debt	**545,811**	822,302
Other noncurrent liabilities	**465,163**	384,101
Total liabilities	**3,483,017**	3,103,599
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY:		
Common stock, no par, stated value $.01 per share, 500,000,000 shares authorized, 217,945,398 shares issued at April 30, 2004 and 2003	**2,179**	2,179
Convertible preferred stock, no par, stated value $.01 per share, 500,000 shares authorized	**–**	–
Additional paid-in capital	**545,065**	496,393
Accumulated other comprehensive income	**57,953**	36,862
Retained earnings	**2,781,368**	2,221,868
Less treasury shares, at cost	**(1,489,556)**	(1,093,593)
Total stockholders' equity	**1,897,009**	1,663,709
Total liabilities and stockholders' equity	**$ 5,380,026**	$ 4,767,308

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Amounts in thousands

Year ended April 30,	**2004**	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	**$ 697,897**	$ 580,064	$ 434,405
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	**172,038**	161,821	155,386
Provision for bad debt	**53,663**	49,748	76,804
Provision for deferred taxes on income	**(3,632)**	(45,734)	(89,688)
Accretion of residual interests in securitizations	**(168,029)**	(145,165)	(50,583)
Impairment of residual interests in securitizations	**30,661**	54,111	30,987
Realized gain on sale of previously securitized residual interests	**(40,689)**	(130,881)	–
Additions to trading securities – residual interests in securitizations	**(327,996)**	(542,544)	(809,228)
Proceeds from net interest margin transactions	**310,358**	541,791	783,171
Additions to mortgage servicing rights	**(84,274)**	(65,345)	(65,630)
Amortization of mortgage servicing rights	**69,718**	47,107	33,890
Net change in beneficial interest in Trusts	**(15,627)**	(69,529)	(19,960)
Impairment of goodwill	**–**	35,777	–
Tax benefit from stock option exercises	**23,957**	37,304	57,809
Stock-based compensation	**25,718**	2,079	–
Cumulative effect of change in accounting principle	**6,359**	–	–
Changes in assets and liabilities, net of acquisitions:			
Cash and cash equivalents – restricted	**(107,186)**	(286,069)	(67,976)
Receivables for customers, brokers dealers and clearing organizations	**(108,846)**	326,824	465,926
Receivables	**23,887**	(87,140)	(86,531)
Mortgage loans held for sale:			
Originations and purchases	**(23,255,483)**	(17,827,828)	(11,771,688)
Sales and principal repayments	**23,246,815**	17,837,323	11,780,758
Prepaid expenses and other current assets	**26,978**	43,818	(159,734)
Accounts payable to customers, brokers and dealers	**203,099**	(40,507)	(154,799)
Accounts payable, accrued expenses and other	**(34,326)**	56,149	57,608
Accrued salaries, wages and payroll taxes	**58,468**	(42,772)	31,751
Accrued income taxes	**108,801**	156,023	77,047
Other, net	**14,478**	44,400	31,721
Net cash provided by operating activities	**926,807**	690,825	741,446
CASH FLOWS FROM INVESTING ACTIVITIES:			
Available-for-sale securities:			
Purchases of available-for-sale securities	**(11,434)**	(14,614)	(7,241)
Cash received from residual interests in securitizations	**193,606**	140,795	67,070
Cash proceeds from sale of previously securitized residuals	**53,391**	142,486	–
Maturities of other available-for-sale securities	**–**	–	8,250
Sales of other available-for-sale securities	**15,410**	14,081	23,173
Purchases of property and equipment, net	**(127,573)**	(150,897)	(111,775)
Payments made for business acquisitions, net of cash acquired	**(280,865)**	(26,408)	(46,738)
Other, net	**26,332**	19,896	8,228
Net cash provided by (used in) investing activities	**(131,133)**	125,339	(59,033)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Repayments of commercial paper	**(4,618,853)**	(9,925,516)	(10,622,011)
Proceeds from issuance of commercial paper	**4,618,853**	9,925,516	10,622,011
Payments on acquisition debt	**(59,003)**	(57,469)	(50,594)
Dividends paid	**(138,397)**	(125,898)	(115,725)
Acquisition of treasury shares	**(519,862)**	(317,570)	(462,938)
Proceeds from issuance of common stock	**119,956**	126,325	195,233
Other, net	**(2,045)**	(2,344)	140
Net cash used in financing activities	**(599,351)**	(376,956)	(433,884)
Net increase in cash and cash equivalents	**196,323**	439,208	248,529
Cash and cash equivalents at beginning of the year	**875,353**	436,145	187,616
Cash and cash equivalents at end of the year	**$ 1,071,676**	$ 875,353	$ 436,145

See accompanying notes to consolidated financial statements.

[Table of Contents]

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

Amounts in thousands, except per share amounts

	Common Stock		Convertible Preferred Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Treasury Stock		Total Equity
	Shares	Amount	Shares	Amount				Shares	Amount	
Balances at April 30, 2001	217,945	$2,179	–	$ –	$419,957	$(42,767)	$1,449,022	(34,337)	$ (654,650)	$1,173,741
Net income	–	–	–	–	–	–	434,405	–	–	–
Unrealized translation loss	–	–	–	–	–	(875)	–	–	–	–
Change in net unrealized gain on marketable securities	–	–	–	–	–	87,770	–	–	–	–
Comprehensive income	–	–	–	–	–	–	–	–	–	521,300
Stock options exercised	–	–	–	–	47,590	–	–	9,662	202,500	250,090
Restricted stock awards	–	–	–	–	237	–	–	17	400	637
Stock issued for ESPP	–	–	–	–	268	–	–	97	2,047	2,315
Acquisition of treasury shares	–	–	–	–	–	–	–	(12,259)	(462,938)	(462,938)
Cash dividends paid – $.63 per share	–	–	–	–	–	–	(115,725)	–	–	(115,725)
Balances at April 30, 2002	217,945	2,179	–	–	468,052	44,128	1,767,702	(36,820)	(912,641)	1,369,420
Net income	–	–	–	–	–	–	580,064	–	–	–
Unrealized translation gain	–	–	–	–	–	17,415	–	–	–	–
Change in net unrealized gain on marketable securities	–	–	–	–	–	(24,681)	–	–	–	–
Comprehensive income	–	–	–	–	–	–	–	–	–	572,798
Stock options exercised	–	–	–	–	27,241	–	–	5,070	135,409	162,650
Restricted stock awards	–	–	–	–	5	–	–	(64)	(1,306)	(1,301)
Stock issued for ESPP	–	–	–	–	1,095	–	–	94	2,515	3,610
Acquisition of treasury shares	–	–	–	–	–	–	–	(6,624)	(317,570)	(317,570)
Cash dividends paid – $.70 per share	–	–	–	–	–	–	(125,898)	–	–	(125,898)
Balances at April 30, 2003	217,945	2,179	–	–	496,393	36,862	2,221,868	(38,344)	(1,093,593)	1,663,709
Net income	–	–	–	–	–	–	**697,897**	–	–	–
Unrealized translation gain	–	–	–	–	–	**12,355**	–	–	–	–
Change in net unrealized gain on marketable securities	–	–	–	–	–	**8,736**	–	–	–	–
Comprehensive income	–	–	–	–	–	–	–	–	–	**718,988**
Stock options exercised	–	–	–	–	**21,585**	–	–	**3,928**	**117,975**	**139,560**
Restricted stock awards	–	–	–	–	**385**	–	–	**72**	**2,103**	**2,488**
Stock issued for ESPP	–	–	–	–	**984**	–	–	**127**	**3,821**	**4,805**
Stock-based compensation	–	–	–	–	**25,718**	–	–	–	–	**25,718**
Acquisition of treasury shares	–	–	–	–	–	–	–	**(10,633)**	**(519,862)**	**(519,862)**
Cash dividends paid – $.78 per share	–	–	–	–	–	–	**(138,397)**	–	–	**(138,397)**
Balances at April 30, 2004	**217,945**	**$2,179**	–	**$ –**	**$545,065**	**$ 57,953**	**$2,781,368**	**(44,850)**	**$(1,489,556)**	**$1,897,009**

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of operations: The operating subsidiaries of H&R Block, Inc. (the "Company") provide a variety of financial services to the general public, principally in the United States, but also in Canada, Australia and the United Kingdom. Specifically, the Company offers tax return preparation and electronic filing of tax returns; origination, sale and servicing of non-prime and prime mortgages; investment services through a broker-dealer; tax preparation and related software, refund anticipation loan products offered by a third-party lending institution; and accounting, tax and consulting services to business clients.

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

Some of the Company's subsidiaries operate in regulated industries, and their underlying accounting records reflect the policies and requirements of these industries.

Reclassifications: Certain reclassifications have been made to prior year amounts to conform to the current year presentation. Revenues were decreased $33.3 million and $32.0 million for the years ended April 30, 2003 and 2002, respectively, related to the reclassification of loan sale repurchase reserves from other expenses and certain compensation and benefits expenses to reduce gains on sales of mortgage assets. These reclassifications had no effect on the results of operations or shareholders' equity as previously reported.

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.

Cash and cash equivalents: Cash and cash equivalents include cash on hand, cash due from banks and securities purchased under agreements to resell. For purposes of the consolidated balance sheets and consolidated statements of cash flows, all non-restricted highly liquid instruments purchased with an original maturity of three months or less are considered to be cash equivalents.

The Company's broker-dealers purchase securities under agreements to resell and account for them as collateralized financings. The securities are carried at the amounts at which the securities will be subsequently resold, as specified in the respective agreements. Collateral relating to investments in repurchase agreements is held by independent custodian banks. The securities are revalued daily and collateral added whenever necessary to bring market value of the underlying collateral equal to or greater than the repurchase amount specified in the contracts.

Cash and cash equivalents – restricted: Cash and cash equivalents – restricted consists primarily of securities purchased under agreements to resell and cash which has been segregated in a special reserve account for the exclusive benefit of customers pursuant to federal regulations under Rule 15c3-3 of the Securities Exchange Act of 1934. Also included are cash balances held for outstanding commitments to fund mortgage loans and funds held to pay payroll taxes on behalf of customers.

Marketable securities – trading: Certain marketable debt securities held by the Company's broker-dealer are classified as trading, carried at market value (based on quoted prices) and marked to market through the consolidated income statements. Certain residual interests in securitizations of mortgage loans are classified as trading, based on management's intentions, are carried at market value (based on discounted cash flow models) and marked to market through the consolidated income statements. These securities are included in prepaid expenses and other current assets on the consolidated balance sheets.

Receivables from customers, brokers, dealers and clearing organizations and accounts payable to customers, brokers and dealers: Customer receivables and payables consist primarily of amounts due on margin and cash transactions. These receivables are collateralized by customers' securities held, which are not reflected in the accompanying consolidated financial statements.

Receivables from brokers are collateralized by securities in physical possession of, or on deposit with, the Company or receivables from customers or other brokers. The allowance for doubtful accounts represents an amount considered by management to be adequate to cover potential losses.

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

Receivables: Receivables consist primarily of Business Services accounts receivable and mortgage loans held for sale. Mortgage loans held for sale are carried at the lower of aggregate cost or market value as determined by outstanding commitments from investors or current investor-yield requirements calculated on an aggregate basis. The allowance for doubtful accounts requires management's judgment regarding current market indicators about general economic trends to establish an amount considered by management to be adequate to cover potential losses related to its non-mortgage loan receivable balance.

Marketable securities – available-for-sale: Certain marketable debt and equity securities are classified as available-for-sale, based on management's intentions, and are carried at market value (based on quoted prices) with unrealized gains and losses included in other comprehensive income. If losses are determined to be other-than-temporary, the security is written down to fair value with the realized loss, net of any unrealized gain previously recorded in other comprehensive income, included in the consolidated income statements. The cost of marketable securities sold is determined on the specific identification method. These securities are included in other assets on the consolidated balance sheets.

Residual interests in securitizations: Residual interests classified as available-for-sale securities are carried at market value (based on discounted cash flow models) with unrealized gains included in other comprehensive income. The residual interests are accreted over the estimated life of the securitization structure. If the carrying value exceeds market value, the residual is written down to market value with the realized loss, net of any unrealized gain previously recorded in other comprehensive income, included in gains on sales of mortgage assets in the consolidated income statements.

The Company estimates future cash flows from these residuals and values them utilizing assumptions it believes to be consistent with those of unaffiliated third-party purchasers. The Company estimates the fair value of residuals by computing the present value of the excess of the weighted-average interest rate on the loans sold over the sum of (1) the coupon on the securitization bonds, (2) a contractual servicing fee paid to the servicer of the loans (which is usually the Company),

(3) expected losses to be incurred on the portfolio of the loans sold (as projected to occur) over the lives of the loans, (4) fees payable to the trustee and insurer, if applicable, (5) estimated collections of prepayment penalty fee income, and (6) payments made to investors on NIM bonds, if applicable. The residual valuation takes into consideration the current and expected interest rate environment, including projected changes in future interest rates and the timing of such changes. Prepayment and loss assumptions used in estimating the cash flows are based on evaluation of the actual experience of the servicing portfolio, the characteristics of the applicable loan portfolio, as well as also taking into consideration the current and expected economic and interest rate environment and its expected impact. The estimated cash flows are discounted at an interest rate the Company believes an unaffiliated third-party purchaser would require as a rate of return on a financial instrument with a similar risk profile. The Company evaluates, and adjusts if necessary, the fair values of residual interests quarterly by updating the actual and expected assumptions in the discounted cash flow models based on current information and events and by estimating, or validating with third-party experts, if necessary, what a market participant would use in determining the current fair value. To the extent that actual excess cash flows are different from estimated excess cash flows, the fair value of the residual would increase or decrease.

Beneficial interest in Trusts – trading: The beneficial interest in Trusts is recorded as a result of daily non-prime whole loan sales to qualifying special purpose entities (“Trusts”). The beneficial interest is classified as a trading security, based on management’s intentions, is carried at market value and is marked to market through the consolidated income statements. Market value is calculated as the present value of future cash flows which are limited to the ultimate expected outcome from the disposition of the loans by the Trusts.

Mortgage servicing rights: Mortgage servicing rights (“MSRs”) retained in the sale of mortgage loans are recorded at allocated carrying amounts based on relative fair values at the time of the sale. The MSRs are carried at the lower of cost or fair value. Fair values of MSRs are determined based on the present value of estimated future cash flows related to servicing loans. Assumptions used in estimating the value of MSRs include market discount rates and anticipated prepayment speeds (including default), estimated ancillary fee income and other economic factors. The prepayment speeds are estimated using the Company’s historical experience and third-party market sources. The MSRs are amortized to earnings in proportion to, and over the period of, estimated net future servicing income. MSRs are reviewed quarterly for potential impairment. Impairment is assessed based on the fair value of each risk stratum. MSRs are stratified by: the fiscal year of the loan sale date (which approximates date of origination) and loan type (6-month adjustable, 2- to 3-year adjustable and fixed rate).

Property and equipment: Buildings and equipment are stated at cost and are depreciated over the estimated useful lives of the assets using the straight-line method. Leasehold improvements are stated at cost and are amortized over the lesser of the term of the respective lease or the estimated useful life, using the straight-line method. Estimated useful lives are 15 to 40 years for buildings, 3 to 5 years for computers and other equipment and up to 8 years for leasehold improvements.

The Company capitalizes certain allowable costs associated with software developed or obtained for internal use. These costs are amortized over 36 months using the straight-line method.

Intangible assets and goodwill: The Company accounts for its goodwill and intangible assets in accordance with Statement of Financial Accounting Standards No. 142, “Goodwill and Other Intangible Assets,” (“SFAS 142”). Under SFAS 142, amortization of both goodwill and indefinite-life intangibles ceased and periodic impairment testing of these assets is now required. The Company tests goodwill and other indefinite life intangible assets for impairment annually or more frequently, whenever events occur or circumstances change which would, more likely than not, reduce the fair value of a reporting unit below its carrying value. These tests were completed and no indications of goodwill impairment were found during fiscal year 2004 or 2002. During fiscal year 2003 however, impairment charges of $24.0 million and $11.8 million were recorded in the Investment Services and Business Services segments, respectively.

In addition, long-lived assets, including intangible assets with finite lives, are assessed for impairment whenever events or circumstances indicate the carrying value may not be fully recoverable by comparing the carrying value to future undiscounted cash flows. To the extent there is impairment, analysis is performed based on several criteria, including, but not limited to, revenue trends, discounted operating cash flows and other operating factors to determine the impairment amount. No material impairment adjustments to other intangible assets or other long-lived assets were made during the three-year period ended April 30, 2004. The weighted-average life of intangible assets with finite lives is 10 years.

Commercial paper: Short-term borrowings are used to finance temporary liquidity needs and various financial activities conducted by the Company. There was no commercial paper outstanding at April 30, 2004 and 2003.

Litigation: The Company’s policy is to routinely assess the likelihood of any adverse judgments or outcomes related to legal matters, as well as ranges of probable losses. A determination of the amount of the reserves required, if any, for these contingencies is made after thoughtful analysis of each known issue and an analysis of historical experience in accordance with Statement of Financial Accounting Standards No. 5, “Accounting for Contingencies,” and related pronouncements. The Company has recorded reserves related to certain legal matters for which it is probable that a loss has been incurred and the range of such loss can be estimated. With respect to other matters, management has concluded that a loss is only reasonably possible or remote and, therefore, no liability is recorded. In addition, there are certain gain contingencies for which the Company has not recorded an asset.

Income taxes: The Company and its subsidiaries file a consolidated Federal income tax return on a calendar year basis. Deferred taxes are provided for temporary differences between financial and tax reporting, which consist principally of deductible goodwill, residual interests, stock-based compensation, accrued expenses, deferred compensation, mortgage servicing rights and allowances for credit losses. Deferred taxes are included in prepaid expenses and other current assets and other assets on the consolidated balance sheets.

Revenue recognition: Service revenues consist primarily of fees for preparation and filing of tax returns, system administration fees associated with refund anticipation loans (“RALs”) and refund anticipation checks, mortgage loan servicing fees, brokerage commissions and fees for consulting services. Generally, service revenues are recorded in the period in which the service is performed. Retail and online tax preparation revenues are recorded when a completed return is filed or accepted by the customer. RAL participation revenue is recorded when the Company purchases its participation interest in the RAL. Commission revenue is recognized on a trade-date basis. Revenues for services rendered in connection with the Business Services segment are recognized on a time and materials basis.

Gains on sales of mortgage assets are recognized when control of the assets are surrendered (when loans are sold to Trusts) and are based on the difference between cash proceeds and the allocated cost of the assets sold.

Interest income consists primarily of interest earned on customer margin loan balances and mortgage loans, and accretion income. Interest income on customer margin loan balances is recognized daily as earned based on current rates charged to customers for their margin balance. Accretion income represents interest earned over the life of residual interests using the effective interest method.

Product sales consist mainly of tax preparation software, other personal productivity software and the Peace of Mind (“POM”) guarantee program. Sales of

software are recognized when the product is ultimately sold to the end user. POM revenues are deferred and recognized over the term of the guarantee based upon historic and actual payment of claims.

Franchise royalties, which are based upon the contractual percentages of franchise revenues, are recorded in the period in which the franchise provides the service.

Revenue recognition is evaluated separately for each unit in multiple-deliverable arrangements.

Advertising expense: Advertising costs are expensed the first time the advertisement is run.

Foreign currency translation: Assets and liabilities of 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 in other comprehensive income.

Stock-based compensation plans: Prior to fiscal year 2004, the Company accounted for stock-based compensation plans under the recognition and measurement provisions of APB Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25") as allowed under Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"). Effective May 1, 2003, the Company adopted the fair value recognition provisions of SFAS 123, under the prospective transition method as described in Statement of Financial Accounting Standards No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure" ("SFAS 148"). Stock-based compensation expense is recognized on a straight-line basis over the vesting period. Had compensation cost for all stock-based compensation plan grants been determined in accordance with the fair value accounting method prescribed under SFAS 123, the Company's net income and earnings per share would have been as follows:

	(in 000s, except per share amounts)		
Year ended April 30,	**2004**	2003	**2002**
Net income as reported	**$697,897**	$580,064	$434,405
Add: Stock-based compensation expense included in reported net income, net of taxes	**18,029**	1,223	—
Deduct: Total stock-based compensation expense determined under fair value method for all awards, net of taxes	**(30,662)**	(21,025)	(34,045)
Pro forma net income	**$685,264**	$560,262	$400,360
Basic earnings per share:			
As reported	**$ 3.94**	$ 3.23	$ 2.38
Pro forma	**3.87**	3.12	2.19
Diluted earnings per share:			
As reported	**$ 3.86**	$ 3.15	$ 2.31
Pro forma	**3.80**	3.06	2.13

Derivative activities: The Company records 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 Company uses financial instruments to mitigate interest rate risk, loan commitments related to mortgage loans which will be held for sale, and at times, other instruments which are accounted for as derivatives. The Company utilizes forward loan sale commitments, interest rate swaps and interest rate caps throughout the year to manage its interest rate risk. The Company does not enter into derivative transactions for speculative or trading purposes.

Disclosure regarding certain financial instruments: The carrying values reported in the balance sheet for cash equivalents, receivables, accounts payable, accrued liabilities and the current portion of long-term debt approximate fair market value due to the relative short-term nature of the respective instruments. Residual interests are recorded at estimated fair value as discussed above. See note 10 for fair value of long-term debt.

New accounting standards: In March 2004, the SEC Staff issued Staff Accounting Bulletin No. 105, "Application of Accounting Principles to Loan Commitments," ("SAB 105"). SAB 105 states that, when valuing loan commitments, registrants may not include expected future cash flows related to the associated servicing of the loans and, similarly, may not recognize any other internally developed intangible assets as part of the loan commitment derivative. The guidance in SAB 105 is effective for new loan commitments entered into after March 31, 2004. As such, the Company no longer records an asset related to the fair value of its non-prime commitments to fund loans entered into after March 31, 2004. The Company recorded an asset of $.4 million and $11.4 million as of April 30, 2004 and 2003, respectively, related to the fair value of non-prime loan commitments.

In April 2003, Statement of Financial Accounting Standards No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities" ("SFAS 149") was issued. SFAS 149 amends and clarifies the accounting for derivative instruments and incorporates many of the implementation issues cleared as a result of the Derivatives Implementation Group process. The provisions of this standard are effective for contracts entered into or modified after June 30, 2003. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.

In January 2003, the Financial Accounting Standards Board ("FASB") issued Interpretation No. 46, "Consolidation of Variable Interest Entities" ("FIN 46"). A revision of FIN 46 was issued in December 2003. FIN 46 provides guidance with respect to the consolidation of certain variable interest entities ("VIEs") whereby a VIE must be consolidated by its primary beneficiary if the entity does not effectively disperse risks among parties involved. The primary beneficiary is one who absorbs a majority of the expected losses, residual returns, or both as a result of holding variable interests. FIN 46 also requires disclosures for both the primary beneficiary of a VIE and other parties with significant variable interests in the entity. The Mortgage Operations segment has an interest in certain qualifying special purpose entities ("QSPEs") it currently does not consolidate, which are exempt from the provisions of FIN 46. See discussion of SFAS 140 exposure draft below, which may affect this conclusion. Adoption of FIN 46 did not have a material impact on the Company's consolidated financial statements.

In August 2003, the Company adopted Emerging Issues Task Force Issue No. 00-21, "Revenue Arrangements with Multiple Deliverables" ("EITF 00-21"). EITF 00-21 requires consideration received in connection with arrangements involving multiple revenue generating activities be measured and allocated to each separate unit of accounting. Revenue recognition is determined separately for each unit of accounting within the arrangement. EITF 00-21 impacts revenue and expense recognition related to tax preparation in the Company's premium tax offices where POM guarantees are included in the price of a completed tax return. Prior to the adoption of EITF 00-21, revenues and expenses related to POM guarantees at premium offices were recorded in the same period as tax preparation revenues. Beginning May 1, 2003, revenues and direct expenses related to POM guarantees are now initially deferred and recognized over the guarantee period in proportion to POM claims paid. As a result of the adoption of EITF 00-21, the Company recorded a cumulative effect of a change in accounting principle of $6.4 million, net of taxes of $4.0 million, as of May 1, 2003.

Revenues recognized during fiscal year 2004, which were initially recognized in prior periods and recorded as part of the cumulative effect of a change in accounting principle, totaled $36.3 million.

Pro forma results, as if EITF 00-21 had been applied during fiscal years 2003 and 2002, are as follows:

(in 000s, except per share amounts)

Year ended April 30, 2003	As Reported	Pro Forma
Net income	$580,064	$578,418
Earnings per share:		
Basic	$ 3.23	$ 3.22
Diluted	3.15	3.14

(in 000s, except per share amounts)

Year ended April 30, 2002	As Reported	Pro Forma
Net income	$434,405	$435,551
Earnings per share:		
Basic	$ 2.38	$ 2.38
Diluted	2.31	2.31

The FASB intends to reissue the exposure draft, “Qualifying Special Purpose Entities and Isolation of Transferred Assets, an Amendment of FASB Statement No. 140,” during the third quarter of calendar year 2004. The purpose of the proposal is to provide more specific guidance on the accounting for transfers of financial assets to a QSPE.

Provisions in the first exposure draft, as well as tentative decisions reached by the Board during its deliberations, may require the Company to consolidate its current QSPEs (the Trusts) established in its Mortgage Operations segment. As of April 30, 2004, the Trusts had assets and liabilities of $3.2 billion. The provisions of the exposure draft are subject to FASB due process and are subject to change. The Company will continue to monitor the status of the exposure draft, and consider changes, if any, to current structures as a result of the proposed rules.

The estimated impact of these new accounting standards reflects current views. There may be material differences between these estimates and the actual impact of these standards.

NOTE 2: BUSINESS COMBINATIONS AND DISPOSALS

Significant acquisitions during fiscal years 2004, 2003 and 2002 are as follows. Each acquisition was accounted for as a purchase and, accordingly, results for each acquisition are included since the date of acquisition.

Business	Asset Acquired	Estimated Life	Asset Value at Acquisition (in 000s)
Fiscal year 2004			
Former major franchise territories	Property and equipment		**$ 2,697**
	Goodwill	N/A	**205,313**
	Customer relationships	10 years	**18,167**
	Noncompete agreements	3 years	**17,069**
	Weighted average life	7 years	**$243,246**
Accounting firms	Goodwill	N/A	**$ 3,923**
	Customer relationships	10 years	**1,794**
	Noncompete agreements	15 years	**747**
	Weighted average life	11 years	**$ 6,464**
Fiscal year 2003			
Accounting firms	Goodwill	N/A	$ 2,404
	Customer relationships	10 years	2,242
	Noncompete agreements	15 years	728
	Weighted average life	11 years	$ 5,374
Fiscal year 2002			
MyBenefitSource, Inc.	Goodwill	N/A	$ 11,929
	Trade name	5 years	868
	Customer relationships	8 years	1,616
	Noncompete agreements	5 years	1,522
	Weighted average life	6 years	$ 15,935
Equico Resources, LLC	Goodwill	N/A	$ 28,383
	Trade name	6 years	1,560
	Customer relationships	3 years	2,510
	Noncompete agreements	5 years	4,370
	Weighted average life	5 years	$ 36,823
Accounting firms	Goodwill	N/A	$ 15,842
	Customer relationships	10 years	9,314
	Noncompete agreements	15 years	3,584
	Weighted average life	11 years	$ 28,740

During fiscal year 2004, we made payments of $243.2 million related to the acquisition of assets and stock in the franchise territories of ten former major franchisees. The customer relationships will be amortized based on estimated customer retention over ten years. The noncompete agreements will be amortized on a straight-line basis over three years. Goodwill recognized in these transactions is included in the U.S. Tax Operations segment and all but $3.9 million is deductible for tax purposes.

During fiscal year 2004, the Company acquired three accounting firms. Cash payments related to these acquisitions totaled $6.2 million, with additional cash payments of $1.0 million over the next five years. The purchase agreements also provide for possible future contingent consideration of approximately $3.0 million. Goodwill recognized in these transactions is deductible for tax purposes and is included in the Business Services segment.

During fiscal year 2003, the Company acquired two accounting firms. Cash payments related to these acquisitions totaled $2.6 million, with additional cash payments of $2.8 million over the next five years. The purchase agreements also provide for possible future contingent consideration of approximately $0.3 million. Goodwill recognized in these transactions was $2.4 million, which is deductible for tax purposes and is included in the Business Services segment.

In December 2001, the Company acquired a controlling interest in MyBenefitSource, Inc., an integrated payroll and benefits processing company, with an option to acquire the remaining shares. The Company also acquired 100% of EquiCo Resources, LLC (“EquiCo”), a valuation, merger and acquisition consulting company. Cash payments related to these acquisitions totaled $28.5 million with additional cash payments of $31.0 million over the next five years. The purchase agreements also provide for possible future contingent consideration of approximately $45.0 million, which is based on achieving certain revenue, profitability and working capital targets over the next six years, and such consideration will be treated as purchase price if paid. Goodwill recognized in these transactions is not deductible for tax purposes and is included in the Business Services segment.

During fiscal year 2002, the Company acquired six accounting firms, giving the Business Services segment a geographic presence in Seattle and San Francisco, as well as expanding its existing presence in New York City and Dallas. Cash payments related to these acquisitions totaled $6.9 million, with additional cash payments of $26.1 million over the next five years. The purchase agreements also provide for possible future contingent consideration of approximately $6.6 million, which is based on achieving certain revenue and profitability over the next five years, and such consideration will be treated as purchase price if paid. Goodwill of $8.8 million is expected to be fully deductible for tax purposes and is included in the Business Services segment.

During fiscal year 2004, 2003 and 2002, the Company made other acquisitions which were accounted for as purchases with cash payments totaling $7.9 million, $3.0 million and $1.6 million, respectively. Their operations, which are not material, are included in the consolidated income statements since the date of acquisition.

NOTE 3: EARNINGS PER SHARE

Basic earnings per share is computed using the weighted-average number of common shares outstanding. The dilutive effect of potential common shares outstanding is included in diluted earnings per share. The computations of basic and diluted earnings per share before change in accounting principle are as follows:

	(in 000s, except per share amounts)		
Year ended April 30,	**2004**	2003	2002
Net income before change in accounting	**$704,256**	$580,064	$434,405
Basic weighted average common shares	**177,076**	179,638	182,903
Dilutive potential shares from stock options and restricted stock	**3,725**	4,439	5,423
Convertible preferred stock	**1**	1	1
Dilutive weighted average common shares	**180,802**	184,078	188,327
Earnings per share:			
Basic	**$ 3.98**	$ 3.23	$ 2.38
Diluted	**3.90**	3.15	2.31

Diluted earnings per share excludes the impact of weighted-average common shares issuable upon the exercise of stock options of 2.4 million, 2.6 million, and 0.7 million shares for 2004, 2003 and 2002, respectively, because the options' exercise prices were greater than the average market price of the common shares and therefore, the effect would be antidilutive.

NOTE 4: RECEIVABLES

The components of receivables from customers, brokers, dealers and clearing organizations are as follows:

	(in 000s)	
April 30,	**2004**	2003
Gross receivables	**$626,179**	$518,558
Less: Allowance for doubtful accounts	**(1,103)**	(1,521)
	$625,076	$517,037

The components of receivables are as follows:

	(in 000s)	
April 30,	**2004**	2003
Business Services accounts receivable	**$145,231**	$185,023
Mortgage loans held for sale	**84,428**	68,518
Loans to franchisees	**35,872**	33,341
Refund anticipation loans ("RALs")	**49,047**	12,871
Software receivables	**20,882**	36,810
Other	**65,868**	89,054
	401,328	425,617
Allowance for doubtful accounts	**(38,266)**	(17,038)
Lower of cost or market adjustment – mortgage loans	**(15,152)**	(5,382)
	$347,910	$403,197

NOTE 5: MARKETABLE SECURITIES AVAILABLE-FOR-SALE

The amortized cost and market value of marketable securities classified as available-for-sale at April 30, 2004 and 2003 are summarized below:

(in 000s)

	2004				2003			
	Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses(1)**	**Market Value**	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
Municipal bonds	**$ 8,846**	**$ 27**	**$ 78**	**$ 8,795**	$ 11,959	$ 516	$ 8	$ 12,467
Common stock	**4,661**	**450**	**82**	**5,029**	4,491	169	97	4,563
	13,507	**477**	**160**	**13,824**	16,450	685	105	17,030
Residual interests	**98,462**	**112,511**	**–**	**210,973**	166,248	98,089	–	264,337
	$111,969	**$112,988**	**$160**	**$224,797**	$182,698	$98,774	$105	$281,367

(1) Gross unrealized losses have been in a continuous loss position for less than 12 months.

Proceeds from the sales of available-for-sale securities were $68.8 million, $156.6 million and $23.2 million during 2004, 2003 and 2002, respectively. Gross realized gains on those sales during 2004, 2003 and 2002 were $41.8 million, $131.4 million and $0.6 million, respectively; gross realized losses were $0.1 million, $0.7 million and $0.2 million, respectively.

Contractual maturities of available-for-sale debt securities (municipal bonds) at April 30, 2004 occur at varying dates over the next five to ten years. Because 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.

NOTE 6: MORTGAGE BANKING ACTIVITIES

The Company originates mortgage loans and sells most non-prime loans the same day the loans are funded to Trusts. These Trusts meet the criteria of QSPEs and are therefore not consolidated. The sale is recorded in accordance with Statement of Financial Accounting Standards No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" ("SFAS 140"). The Trusts purchase the loans from the Company utilizing five warehouse facilities arranged by the Company. As a result of the whole loan sales to the Trusts, the Company removes the mortgage loans from its balance sheet and records the gain on the sale, cash and a beneficial interest in Trusts, which represents the ultimate expected outcome from the disposition of the loans. The beneficial interest in Trusts was $137.8 million and $122.1 million at April 30, 2004 and 2003, respectively. The beneficial interest in Trusts was reclassified from prepaid and other current assets to a non-current asset on the April 30, 2003 balance sheet.

The Trusts, as directed by their third-party beneficial interest holders, either sell the loans directly to third-party investors or back to the Company to pool the loans for securitization. The decision to complete a whole loan sale or a securitization is dependent on market conditions. If the Trusts choose to sell the mortgage loans, the Company receives cash for its beneficial interest in Trusts. In a securitization transaction, the Trusts transfer the loans to a consolidated subsidiary of the Company, and the Company transfers its beneficial interest in Trusts and the loans to a securitization trust. The securitization trust meets the definition of a QSPE and is therefore not consolidated. The securitization trust issues bonds, which are supported by the cash flows from the pooled loans, to third-party investors. The Company retains an interest in the loans in the form of a residual interest and usually assumes the first risk of loss for credit losses in the loan pool. As the cash flows of the underlying loans and market conditions change, the value of the Company's residual interest may also change, resulting in either additional unrealized gains or impairment of the value of the residual interests. These residual interests are classified as trading securities and had no balance as of April 30, 2004 and 2003.

To accelerate the cash flows from its residual interests, the Company securitizes the majority of its residual interests in net interest margin ("NIM") transactions. In a NIM transaction, the residual interests are transferred to another QSPE ("NIM trust"), which then issues bonds to third-party investors. The proceeds from the bonds are returned to the Company as payment for the residual interests. The bonds are secured by the pooled residual interests and are obligations of the NIM trust. The Company retains a subordinated interest in the NIM trust, and receives cash flows on its residual interest generally after the bonds issued to the third-party investors are paid in full. Residual interests retained from NIM securitizations may also be bundled and sold in a subsequent securitization. These residual interests are classified as available-for-sale securities (see note 5).

Prime mortgage loans are sold in whole loan sales, servicing released, to third-party buyers.

Activity related to residual interests in securitizations consists of the following:

	(in 000s)	
April 30,	**2004**	2003
Balance, beginning of year	**$ 264,337**	$ 365,371
Additions (resulting from NIM transactions)	**9,007**	753
Cash received	**(193,606)**	(140,795)
Cash received on sales of residual interests	**(53,391)**	(142,486)
Accretion	**165,817**	145,165
Impairments of fair value	**(30,661)**	(54,111)
Other	**(6,203)**	–
Change in unrealized holding gains (losses) arising during the period	**55,673**	90,440
Balance, end of year	**$ 210,973**	$ 264,337

The Company sold $23.2 billion and $17.2 billion of mortgage loans in whole loan sales to the Trusts during the years ended April 30, 2004 and 2003, respectively. Gains totaling $716.7 million and $663.6 million were recorded on these sales, respectively.

Residual interests valued at $328.0 million and $542.5 million were securitized in NIM transactions during the years ended April 30, 2004 and 2003, respectively. Net cash proceeds of $310.4 million and $541.8 million were received from the NIM transactions for the years ended April 30, 2004 and 2003, respectively. Total net additions to residual interests for the years ended April 30, 2004 and 2003 were $9.0 million and $0.8 million, respectively.

Cash flows from the residual interests of $193.6 million and $140.8 million were received from the securitization trusts for the years ended April 30, 2004 and 2003, respectively. An additional $53.4 million and $142.5 million was received during fiscal years 2004 and 2003, respectively, as a result of the sale of previously securitized residuals, as discussed below. Cash received on the residual interests is included in investing activities on the consolidated statements of cash flows.

During fiscal year 2004, the Company completed sales of previously securitized residual interests and recorded gains of $40.7 million. Cash proceeds of $53.4 million were received from the transactions and a $1.5 million residual interest was retained. These sales accelerate cash flows from the residual interests, effectively realizing previously recorded unrealized gains included in other comprehensive income.

During fiscal year 2003, the Company completed the sale of previously securitized residual interests and recorded a gain of $130.9 million on the transaction. Cash proceeds of $142.5 million were received from the transaction and a residual interest of $57.4 million was retained.

Residual interests are considered available-for-sale securities and are therefore reported at fair value. Gross unrealized holding gains represent the write-up of residual interests as a result of lower interest rates, loan losses or loan prepayments to date than most recently projected in the Company's valuation models.

Aggregate net unrealized gains on residual interests, which had not yet been accreted into income, totaled $112.5 million and $98.1 million at April 30, 2004 and 2003, respectively. These unrealized gains are recorded net of deferred taxes in other comprehensive income, and may be recognized in income in future periods either through accretion or upon further securitization of the related residual interest.

In connection with securitization transactions, the Company, as servicer, generally has a 10% clean-up call option, whereby the Company, at its discretion, may repurchase the outstanding loans in the securitization once the current value of the loans is 10% or less of their original value. During fiscal year 2004, the Company exercised call options on residual interests initially recorded in 1996 and 1999. The outstanding loans were repurchased from the securitization trust, and the proceeds were used to pay off the remaining bondholders. These repurchased loans may be included in future sale transactions. At the time the call options were exercised, the carrying value of the corresponding residual interests was $5.9 million, and is included in "Other" in the rollforward of residual interests above.

As the Company services non-prime mortgage loans, $216.1 million and $186.9 million in foreclosure advances, escrow advances and principal and interest advances are included in prepaid expenses and other current assets on the consolidated balance sheets as of April 30, 2004 and 2003, respectively.

Activity related to mortgage servicing rights consists of the following:

	(in 000s)	
April 30,	**2004**	2003
Balance, beginning of year	**$ 99,265**	$ 81,893
Additions	**84,274**	65,345
Amortization	**(69,718)**	(47,107)
Impairments of fair value	**–**	(866)
Balance, end of year	**$113,821**	$ 99,265

Estimated amortization of MSRs for fiscal years 2005, 2006, 2007, 2008 and 2009 is $58.5 million, $29.1 million, $11.3 million, $3.9 million and $.7 million, respectively. The carrying value of MSRs approximates fair value at April 30, 2004 and 2003.

The key assumptions the Company used to originally estimate the cash flows and values of the residual interests are as follows:

	2004	2003	**2002**
Estimated annual prepayments	**30-90%**	30-90%	30-90%
Estimated credit losses	**3.63%**	3.60%	3.06%
Discount rate	**16.25%**	13.03%	14.43%
Variable returns to third-party beneficial interest holders	**LIBOR forward curve at closing**		

The key assumptions the Company used to estimate the cash flows and values of the residual interests and MSRs at April 30 are as follows:

April 30,	**2004**	2003
Estimated annual prepayments	**25-90%**	20-90%
Estimated credit losses	**4.16%**	5.14%
Discount rate – residual interests	**19.09%**	24.22%
Discount rate – MSRs	**12.80%**	12.80%

Variable returns to third-party Beneficial interest holders	**LIBOR forward curve at valuation date**

Expected static pool credit losses are as follows:

	Mortgage loans securitized in		
	2002	2003	**2004**
April 30, 2004	**3.58%**	**4.35%**	**3.92%**

Static pool credit losses are calculated by summing the actual and projected future credit losses and dividing them by the original balance of each pool of assets outstanding at April 30, 2004.

At April 30, 2004, the sensitivities of the current fair value of the residuals and MSRs to 10% and 20% adverse changes in the above key assumptions are presented in the table below. These sensitivities are hypothetical and should be

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

(dollars in 000s)

	Residential Mortgage Loans		
	NIM Residuals	**Beneficial Interest in Trusts[1]**	**Servicing Assets**
Carrying amount/fair value of residuals	**$210,973**	**$137,757**	**$ 113,821**
Weighted average life (in years)	**1.4**	**2.2**	**1.2**
Prepayments (including defaults):			
Adverse 10% – $impact on fair value	**$ 6,352**	**$ (3,836)**	**$ (12,239)**
Adverse 20% – $impact on fair value	**11,458**	**(1,967)**	**(23,003)**
Credit losses:			
Adverse 10% – $impact on fair value	**$ (23,156)**	**$ (2,962)**	**Not applicable**
Adverse 20% – $impact on fair value	**(47,198)**	**(5,831)**	**Not applicable**
Discount rate:			
Adverse 10% – $impact on fair value	**$ (4,176)**	**$ (590)**	**$ (1,545)**
Adverse 20% – $impact on fair value	**(8,063)**	**(3,685)**	**(3,055)**
Variable interest rates:			
Adverse 10% – $impact on fair value	**$ (9,597)**	**$ (10,571)**	**Not applicable**
Adverse 20% – $impact on fair value	**(18,771)**	**(21,910)**	**Not applicable**

(1) Adverse changes are minimized by the Trusts ability to deliver loans into the Company's forward loan sale commitments. See Item 7a for additional analysis.

Mortgage loans which have been securitized at April 30, 2004 and 2003, past due sixty days or more and the related net credit losses are presented below:

(in 000s)

	Total Principal Amount of Loans Outstanding		Principal Amount of Loans 60 Days or More Past		Net Credit Losses (net of recoveries)	
	April 30,		Due April 30,		Year ended April 30,	
	2004	2003	**2004**	2003	**2004**	2003
Residual mortgage loans	**$15,732,953**	$19,835,641	**$1,286,069**	$1,308,991	**$159,253**	$130,065
Warehouse	**3,244,141**	2,186,224	**–**	–	**–**	–
Total loans	**$18,977,094**	$22,021,865	**$1,286,069**	$1,308,991	**$159,253**	$130,065

NOTE 7: GOODWILL AND INTANGIBLE ASSETS

Goodwill and other indefinite life intangible assets were tested for impairment in the fourth quarter of fiscal year 2004. An independent valuation firm was engaged to assist in the test for selected reporting units. No impairment existed at any of the Company's reporting units.

In light of unsettled market conditions and the severe decline of comparable business valuations in the investment industry, the Company engaged an independent valuation firm in fiscal year 2003 to perform the goodwill impairment test on the Investment Services segment in accordance with SFAS 142. Based on this valuation, a goodwill impairment charge of $24.0 million was recorded during fiscal year 2003. Also during 2003, the Company's annual impairment test resulted in an impairment of $11.8 million for a reporting unit within the Business Services segment. No other impairments were identified.

Changes in the carrying amount of goodwill by segment for the year ended April 30, 2004, are as follows:

(in 000s)

	2003	Additions	Other	**2004**
U.S. Tax Operations	$130,502	$212,200	$ –	**$342,702**
Mortgage Operations	152,467	–	–	**152,467**
Business Services	279,650	31,525	–	**311,175**
Investment Services	145,732	–	–	**145,732**
International Tax Operations	5,666	849	619	**7,134**
Corporate Operations	198	10	–	**208**
Total goodwill	$714,215	$244,584	$619	**$959,418**

Additions to goodwill for U.S. Tax Operations include $205.3 million related to asset and stock acquisitions involving former major franchise territories and other acquisitions of $6.9 million. Additions to goodwill for Business Services primarily result from the final contingent payment related to the acquisition of the non-attest assets of McGladrey & Pullen, LLP of $26.7 million.

The components of intangible assets are as follows:

(in 000s)

	April 30, 2004		April 30, 2003	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
U.S. Tax Operations:				
Customer relationships	**$ 18,167**	**$ (3,311)**	$ –	$ –
Noncompete agreements	**17,069**	**(5,690)**	–	–
Business Services:				
Customer relationships	**121,229**	**(56,313)**	120,178	(44,192)
Noncompete agreements	**27,424**	**(8,670)**	26,909	(6,157)
Trade name – amortizing	**1,450**	**(926)**	1,450	(205)
Trade name – non-amortizing	**55,637**	**(4,868)**	55,637	(4,868)
Investment Services:				
Customer relationships	**293,000**	**(129,408)**	293,000	(100,108)
Corporate Operations:				
Customer relationships	**844**	**(66)**	172	(10)
Noncompete agreements	**295**	**(34)**	60	(1)
Total intangible assets	**$535,115**	**$(209,286)**	$497,406	$(155,541)

Amortization of intangible assets for the year ended April 30, 2004, 2003 and 2002 was $54.2 million, $44.5 million and $43.4 million, respectively. Estimated amortization of intangible assets for fiscal years 2005, 2006, 2007, 2008 and 2009 is $52.9 million, $51.9 million, $43.0 million, $41.2 million and $40.0 million, respectively. In fiscal year 2004, the Company wrote off a $0.6 million trade name for a subsidiary in its Business Services segment.

NOTE 8: PROPERTY AND EQUIPMENT

The components of property and equipment are as follows:

	(in 000s)	
April 30,	**2004**	2003
Land	**$ 29,925**	$ 37,614
Buildings	**78,136**	81,631
Computers and other equipment	**498,373**	433,649
Capitalized software	**137,784**	113,826
Leasehold improvements	**114,537**	107,482
	858,755	774,202
Less: Accumulated depreciation and amortization	**579,535**	485,608
	$279,220	$288,594

Depreciation and amortization expense for 2004, 2003 and 2002 was $117.9 million, $117.3 million and $110.9 million, respectively. Included in depreciation and amortization expense is amortization of capitalized software of $28.2 million, $29.9 million and $25.4 million for fiscal years 2004, 2003 and 2002, respectively.

As of April 30, 2004 and 2003, the Company has property and equipment under capital lease with a cost of $14.1 million and $17.6 million, respectively, and accumulated depreciation of $2.5 million and $4.2 million, respectively. The Company has an agreement to lease real estate and buildings under a noncancelable capital lease for the next 16 years with an option to purchase after three years.

NOTE 9: DERIVATIVE INSTRUMENTS

The Company, in the normal course of business, enters into commitments with its customers to fund both non-prime and prime mortgage loans for specified periods of time at “locked-in” interest rates. These derivative instruments represent commitments to fund loans (“rate-lock equivalents”). The fair value of non-prime loan commitments is calculated using a binomial option model. The fair value of prime loan commitments is calculated based on the current market pricing of short sales of FNMA, FHLMC and GNMA mortgage-backed securities and the coupon rates of the eligible loans. At April 30, 2004 and 2003, the Company recorded a liability of $1.4 million and an asset of $12.5 million, respectively, in receivables on its consolidated balance sheets related to these prime and non-prime commitments. Changes in the fair value totaling a loss of $13.9 million were recognized in gains on sales of mortgage assets for fiscal year 2004. See discussion of SAB 105 in note 1, related to a change in accounting for non-prime loan commitments.

The Company sells short FNMA, FHLMC and GNMA mortgage-backed securities to reduce its risk related to its commitments to fund fixed-rate prime loans. The position on certain or all of the fixed-rate mortgage loans is closed approximately 10-15 days prior to standard Public Securities Association (“PSA”) settlement dates. At April 30, 2004 the Company recorded assets totaling $2.1 million in prepaid expenses and other current assets on its consolidated balance sheet related to these instruments. Changes in the market value of these instruments are included in gains on sales of mortgage assets and totaled $4.7 million for fiscal year 2004.

The Company enters into forward loan commitments to sell its non-prime mortgage loans to manage interest rate risk. Forward loan sale commitments for non-prime loans are not considered derivative instruments and are therefore not recorded in our financial statements. The notional value and the contract value of the forward commitments at April 30, 2004 were $4.7 billion and $5.0 billion, respectively.

The Company entered into an agreement with Household Tax Masters, Inc. (“Household”) during fiscal year 2003, whereby the Company waived its right to purchase any participation interests in and receive license fees relating to RALs during the period January 1 through April 30, 2003. In consideration for waiving these rights, the Company received a series of payments from Household, subject to certain adjustments based on delinquency rates on RALs made by Household through December 31, 2003. This adjustment provision was accounted for as a derivative and was marked-to-market monthly through December 31, 2003. Accordingly, during fiscal year 2004, the Company recognized $6.5 million of revenues related to this instrument. The final settlement in accordance with this agreement was received in January 2004. A receivable of $5.2 million was included on the consolidated balance sheet as of April 30, 2003.

None of the derivative instruments qualify for hedge accounting treatment as of April 30, 2004 and 2003.

NOTE 10: LONG-TERM DEBT

The components of long-term debt and capital lease obligations at year end are as follows:

	(in 000s)	
April 30,	**2004**	2003
Senior Notes, 8 1/2%, due April 2007	**$498,225**	$497,625
Senior Notes, 6 3/4%, due November 2004	**249,975**	249,925
Business Services acquisition obligations, due from August 2004 to January 2008	**60,768**	115,874
Mortgage notes	**–**	1,543
Capital lease obligations	**12,512**	13,013
	821,480	877,980
Less: Current portion	**275,669**	55,678
	$545,811	$822,302

On April 13, 2000, the Company issued $500.0 million of 8 1/2% Senior Notes under a shelf registration statement. The Senior Notes are due April 15, 2007, and are not redeemable prior to maturity. The net proceeds of this transaction were used to repay a portion of the short-term borrowings that initially funded the acquisition of OLDE Financial Corporation and Financial Marketing Services, Inc. (collectively, "OLDE").

On October 21, 1997, the Company issued $250.0 million 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").

The Company has obligations related to Business Services acquisitions of $60.8 million and $115.9 million at April 30, 2004 and 2003, respectively. The current portion of these amounts is included in the current portion of long-term debt on the consolidated balance sheet. The long-term portions are due from August 2005 to January 2008.

The Company has a capitalized lease obligation of $12.5 million at April 30, 2004 that is collateralized by land and buildings. The obligation is due in 16 years.

The aggregate payments required to retire long-term debt are $275.7 million, $23.5 million, $510.7 million, $1.1 million, $0.6 million and $9.9 million in 2005, 2006, 2007, 2008, 2009 and beyond, respectively.

Based upon borrowing rates currently available for indebtedness with similar terms, the fair value of long-term debt was approximately $893.5 million and $915.4 million at April 30, 2004 and 2003, respectively.

NOTE 11: OTHER NONCURRENT LIABILITIES

The Company has deferred compensation plans that permit directors and certain employees to defer portions of their compensation and accrue income on the deferred amounts. The compensation, together with Company matching of deferred amounts, has been accrued. Included in other noncurrent liabilities are $93.4 million and $65.4 million at April 30, 2004 and 2003, respectively, reflecting the liability under these plans. The Company purchases whole-life insurance contracts on certain director and employee participants to recover distributions made or to be made under the plans and records the cash surrender value of the policies in other noncurrent assets.

The Company has recorded $280.0 million and $281.7 million for obligations to certain government agencies at April 30, 2004 and 2003, respectively.

In connection with the Company's acquisition of the non-attest assets of McGladrey & Pullen, LLP ("M&P") in August 1999, the Company assumed certain pension liabilities related to M&P's retired partners. The Company makes payments in varying amounts on a monthly basis. Included in other noncurrent liabilities at April 30, 2004 and 2003 are $17.5 million and $19.5 million, respectively, related to this liability.

NOTE 12: STOCKHOLDERS' EQUITY

On June 20, 2001, the Company's Board of Directors declared a two-for-one stock split of its Common Stock in the form of a 100% stock distribution effective August 1, 2001, to shareholders of record as of the close of business on July 10, 2001. All share and per share amounts have been adjusted to reflect the retroactive effect of the stock split.

The Company is authorized to issue 6.0 million shares of Preferred Stock, without par value. At April 30, 2004, the Company had 5.6 million shares of authorized but unissued Preferred Stock. Of the unissued shares, 0.6 million 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 0.5 million shares of nonvoting Preferred Stock designated as Convertible Preferred Stock, without par value. In April 1995, 0.4 million shares of Convertible Preferred Stock were issued in connection with an acquisition. In addition, options to purchase 51,828 shares of Convertible Preferred Stock were issued as a part of the acquisition and 37,399 shares of Convertible Preferred Stock were issued in connection with these options. Each share of Convertible Preferred Stock became convertible on April 5, 1998 into four shares of Common Stock of the Company (eight shares after the August 1, 2001 stock split), 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 wind-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.

The Company grants restricted shares to selected employees under its stock-based compensation plans. Upon the grant of restricted shares, unearned compensation is recorded as an offset to additional paid in capital and is amortized as compensation expense over the restricted period. The balance of unearned compensation related to restricted shares at April 30, 2004 was $15.0 million.

NOTE 13: COMPREHENSIVE INCOME

Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income," establishes standards for reporting and displaying comprehensive income and its components in stockholders' equity. The Company's comprehensive income is comprised of net income, foreign currency translation adjustments and the change in the net unrealized gain or loss on available-for-sale marketable securities. Included in stockholders' equity at April 30, 2004 and 2003, the net unrealized holding gain on available-for-sale securities was $69.7 million and $61.0 million, respectively, and the foreign currency translation adjustment was $(11.8) million and $(24.1) million, respectively. The net unrealized holding gain on available-for-sale securities relates primarily to residual interests in securitizations.

Year ended April 30, (in 000s)	**2004**	2003	**2002**
Net income	**$697,897**	$ 580,064	$434,405
Unrealized gains on securities (less applicable taxes (benefit) of $5,412, ($15,290) and $56,156):			
Unrealized holding gains arising during the period (less applicable taxes of $64,174, $70,983 and $58,248)	**103,886**	114,885	92,629
Less: Reclassification adjustment for gains included in income (less applicable taxes of $58,762, $86,273 and $2,092)	**(95,150)**	(139,566)	(4,859)
Change in foreign currency translation adjustments	**12,355**	17,415	(875)
Comprehensive income	**$718,988**	$ 572,798	$521,300

NOTE 14: STOCK-BASED COMPENSATION AND RETIREMENT BENEFITS

The Company has four stock-based compensation plans: the 2003 Long-Term Executive Compensation Plan, the 1989 Stock Option Plan for Outside Directors, the 1999 Stock Option Plan for Seasonal Employees, and the 2000 Employee Stock Purchase Plan ("ESPP"). The shareholders have approved all of the Company's stock-based compensation plans.

The 2003 Plan replaced the 1993 Long-Term Executive Compensation Plan, effective July 1, 2003. The 1993 Plan terminated at that time, except with respect to outstanding awards thereunder. The shareholders had approved the 1993 Plan 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 2003 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. Options granted under the Plans are exercisable either (1) starting one year after the date of the grant, (2) starting one, two or three years after the date of the grant on a cumulative basis at the annual rate of 331/3% of the total number of option shares, or (3) starting three years after the date of the grant on a cumulative basis at the rate of 40%, 30%, and 30% over the following three years. In addition, certain option grants have accelerated vesting provisions based on the Company's stock price reaching specified levels.

Under the 2003 and 1989 plans, restricted shares of the Company's common stock may be granted to selected employees. Restricted shares granted vest either (1) starting one or three years after the grant on a cumulative basis at an annual rate of 331/3% of the total number of shares, or (2) at the end of three years.

The 1999 Stock Option Plan for Seasonal Employees provided for the grant of options on June 30, 2003, 2002 and 2001 at the market price on the date of the grant. The options are exercisable during September through November in each of the two years following the calendar year of the grant, subject to certain conditions.

Changes during the years ended April 30, 2004, 2003 and 2002 under the stock-based compensation plans were as follows:

(in 000s, except per share amounts)	**2004**		2003		2002	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Options outstanding, beginning of year	**15,772**	**$32.14**	15,910	$26.33	18,908	$20.40
Options granted	**3,744**	**44.05**	5,364	44.32	8,816	32.85
Options exercised	**(3,927)**	**29.11**	(5,098)	24.65	(9,659)	19.82
Options expired/cancelled	**(1,107)**	**34.51**	(404)	34.53	(2,155)	30.21
Options outstanding, end of year	**14,482**	**35.86**	15,772	32.14	15,910	26.33
Shares exercisable, end of year	**6,668**	**30.78**	6,836	25.21	6,410	20.46
Restricted shares granted	**514**	**43.93**	45	44.64	17	36.85
Restricted shares vested	**72**	**23.79**	63	21.02	81	19.56
Shares reserved for future option or restricted stock grants, end of year	**9,880**		14,563		19,523	

A summary of stock options outstanding and exercisable at April 30, 2004 follows:

(shares in 000s)

	Outstanding			Exercisable	
	Number Outstanding at April 30	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable at April 30	Weighted-Average Exercise Price
$ 16.13 – 21.91	**2,292**	**4 years**	**$18.22**	**2,135**	**$18.08**
$ 22.13 – 27.81	**1,693**	**5 years**	**25.94**	**1,092**	**25.82**
$ 32.10 – 39.96	**3,447**	**8 years**	**33.41**	**1,613**	**33.56**
$ 40.00 – 46.26	**6,814**	**9 years**	**44.79**	**1,828**	**46.11**
$ 47.00 – 58.95	**236**	**10 years**	**56.60**	**–**	**–**
	14,482			**6,668**	

The 2000 ESPP provides the option to purchase shares of the Company's Common Stock through payroll deductions to a majority of the employees of subsidiaries of the Company. The purchase price of the stock is 90% of the lower of either the fair market value of the Company's Common Stock on the first trading day within the Option Period or on the last trading day within the Option Period. The Option Periods are six-month periods beginning January 1 and July 1 each year. During fiscal years 2004 and 2003, 127,246 and 93,657 shares, respectively, were purchased under the ESPP out of a total authorized 6.0 million shares.

For purposes of computing actual fiscal year 2004 compensation expense and the pro forma effects for fiscal years 2003 and 2002 of stock compensation plans under the fair value accounting method, disclosed in note 1, the fair value of each stock option grant or purchase right 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 2004, 2003 and 2002 was $7.58, $8.29 and $5.77, respectively. The weighted-average fair value of purchase rights granted during 2004, 2003 and 2002 was $9.96, $9.02 and $5.88, respectively. The following weighted-average assumptions were used for stock option grants and purchase right grants during the following periods:

Year ended April 30,	**2004**	2003	2002
Stock option grants:			
Risk-free interest rate	**1.76%**	3.37%	4.48%
Expected life	**3 years**	4 years	3 years
Expected volatility	**31.65%**	29.04%	28.81%
Dividend yield	**1.65%**	1.50%	1.84%
Purchase right grants:			
Risk-free interest rate	**.97%**	1.45%	2.70%
Expected life	**6 months**	6 months	6 months
Expected volatility	**38.14%**	44.38%	33.07%
Dividend yield	**1.55%**	1.60%	1.60%

The Company has 401(K) defined contribution plans covering all full-time employees following the completion of an eligibility period. Company contributions to these plans are discretionary and totaled $28.9 million, $20.7 million and $15.5 million for fiscal years 2004, 2003 and 2002, respectively.

NOTE 15: SHAREHOLDER RIGHTS PLAN

On July 25, 1998, the rights under a shareholder rights plan, adopted by the Company's Board of Directors on March 25, 1998, became effective. The 1998 plan was adopted 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. Under the 1998 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, 1998. Rights automatically attach to shares issued after such date.

Under the 1998 plan, 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. The Company may, prior to any Unapproved Stock Acquisition, amend the plan to lower such 15% threshold to not less than the greater of (1) any percentage greater than the largest percentage of beneficial ownership by any person or group of persons then known by the Company, and (2) 10% (in which case the acquisition of such lower percentage of beneficial ownership then constitutes an Unapproved Stock Acquisition and the Rights become exercisable). When exercisable, the registered holder of each Right may purchase from the Company one two-hundredth of a share of a class of the Company's Participating Preferred Stock, without par value, at a price of $107.50, 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 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 at a price of $.000625 per Right at any time prior to the earlier of (1) an Unapproved Stock Acquisition, or (2) the expiration of the rights. The Rights under the 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 has no dilutive effect and does not affect reported earnings per share.

NOTE 16: INTEREST INCOME AND INTEREST EXPENSE

The components of interest income are as follows:

		(in 000s)	
Year ended April 30,	**2004**	2003	2002
Mortgage loans	**$ 5,064**	$ 5,421	$ 6,609
Accretion – residual interests	**168,029**	145,165	50,583
Accretion – beneficial interest	**167,705**	103,294	70,668
Broker-dealer activities	**33,408**	37,300	67,849
Other	**4,858**	6,005	10,724
	$379,064	$297,185	$206,433

The components of interest expense are as follows:

		(in 000s)	
Year ended April 30,	**2004**	2003	2002
Acquisition debt	**$68,816**	$72,766	$ 79,002
Accretion of liabilities and other	**7,517**	7,724	12,588
RAL-related	**4,482**	3,244	3,902
Mortgage loans	**1,836**	3,229	4,955
Margin lending	**1,358**	4,830	14,744
Loans to franchises	**547**	851	950
	$84,556	$92,644	$116,141

NOTE 17: INCOME TAXES

The components of income upon which domestic and foreign income taxes have been provided are as follows:

		(in 000s)	
Year ended April 30,	**2004**	2003	2002
Domestic	**$1,151,632**	$976,078	$709,940
Foreign	**12,525**	10,999	6,900
	$1,164,157	$987,077	$716,840

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 income are as follows:

		(in 000s)	
Year ended April 30,	**2004**	2003	2002
Current			
Federal	**$421,787**	$415,083	$335,082
State	**41,169**	29,608	33,116
Foreign	**577**	8,056	3,925
	463,533	452,747	372,123
Deferred:			
Federal	**(3,305)**	(42,512)	(80,275)
State	**(323)**	(2,534)	(8,416)
Foreign	**(4)**	(688)	(997)
	(3,632)	(45,734)	(89,688)
Total provision for income taxes before change in accounting principle	**459,901**	407,013	282,435
Income tax on cumulative effect of change in accounting principle	**(4,031)**	–	–
Income tax included in comprehensive income	**5,412**	(15,290)	56,156

Total provision for income taxes	**$461,282**	$391,723	$338,591

Unremitted earnings of foreign subsidiaries totaled $89.5 million at April 30, 2004. Management intends to indefinitely reinvest foreign earnings, therefore, a provision has not been made for income taxes which might be payable upon remittance of such earnings. Moreover, due to the availability of foreign income tax credits, management believes the amount of federal income taxes would be immaterial in the event foreign earnings were repatriated.

The following table reconciles the federal statutory tax expense to the Company's income tax expense:

Year ended April 30,	2004	2003	2002
	(dollars in 000s)		
Statutory tax	**$407,455**	$345,477	$250,894
Increases (reductions) in income taxes resulting from:			
State income taxes, net of Federal income tax benefit	**27,408**	25,978	16,433
Amortization and impairment of goodwill and intangibles	**10,893**	23,337	11,023
Other	**14,145**	12,221	4,085
Total income tax expense	**$459,901**	$407,013	$282,435
Effective tax rate	**39.5%**	41.2%	39.4%

The components of deferred taxes are as follows:

Year ended April 30,	2004	2003
	(in 000s)	
Gross deferred tax assets:		
Accrued expenses	**$ 46,097**	$ 58,635
Allowance for credit losses	**23,099**	35,817
Current	**69,196**	94,452
Deferred compensation	**34,723**	24,940
Residual interest income	**210,826**	197,747
Depreciation	**5,612**	–
Noncurrent	**251,161**	222,687
Gross deferred tax liabilities:		
Accrued income	**(15,040)**	(24,865)
Current	**(15,040)**	(24,865)
Mortgage servicing rights	**(38,005)**	(39,339)
Amortization of intangibles	**(31,985)**	(19,451)
Depreciation	**–**	(494)
Noncurrent	**(69,990)**	(59,284)
Net deferred tax assets (liabilities)	**$235,327**	$232,990

The Company believes the net deferred tax asset of $235.3 million is realizable. The Company has federal taxable income in excess of $1.9 billion and substantial state taxable income in the carry-back period, as well as a history of growth in earnings and prospects for continued earnings growth. Deferred taxes and taxes payable have been reclassified for a change in method of income tax reporting initiated by the Company during fiscal year 2004 resulting in an increase to total assets and liabilities of $163.4 million at April 30, 2003.

NOTE 18: SUPPLEMENTAL CASH FLOW INFORMATION

The Company made the following cash payments:

Year ended April 30,	2004	2003	2002
	(in 000s)		
Income taxes paid	**$331,635**	$247,057	$236,784
Interest paid	**84,551**	84,094	105,072

The Company characterized the following as non-cash investing activities:

Year ended April 30,	2004	2003	2002
	(in 000s)		
Additions to residual interests	**$ 9,007**	$ 753	$ 26,057
Residual interest mark-to-market	**167,065**	38,880	148,188

NOTE 19: COMMITMENTS, CONTINGENCIES AND RISKS

Commitments and contingencies: At April 30, 2004, the Company maintained a $2.0 billion back-up credit facility to support the commercial paper program and for general corporate purposes. The annual facility fee required to support the availability of this facility is eleven basis points per annum on the unused portion of the facility. Among other provisions, the credit agreement limits the Company's indebtedness.

The Company maintains a revolving credit facility in an amount not to exceed $125.0 million (Canadian) in Canada to support a commercial paper program with varying borrowing levels throughout the year, reaching its peak during February and March for the Canadian tax season.

The Company offers guarantees under its POM program to tax clients whereby the Company will assume the cost, subject to certain limits, of additional tax assessments, up to a cumulative per client limit of $5,000, attributable to tax return preparation error for which the Company is responsible. The Company now defers all revenues and direct costs associated with these guarantees, recognizing these amounts over the term of the guarantee based upon historic and actual payment of claims. The related current asset is included in prepaid expenses and other current assets. The related liability is included in accounts payable, accrued expenses and other on the consolidated balance sheets. The related noncurrent asset and liability are included in other assets and other noncurrent liabilities, respectively, on the consolidated balance sheets. A loss on these POM guarantees would be recognized if the sum of expected costs for services exceeded unearned revenue. The deferred revenue liability increased in fiscal year 2004 by $61.5 million due to the change in accounting principle. The

changes in the deferred revenue liability for the fiscal years ended April 30, 2004 and 2003 are as follows:

		(in 000s)
April 30,	**2004**	2003
Balance, beginning of year	**$ 49,280**	$ 44,982
Amounts deferred for new guarantees issued	**81,803**	28,854
Revenue recognized on previous deferrals	**(69,522)**	(24,556)
Adjustment resulting from change in accounting principle	**61,487**	–
Balance, end of year	**$123,048**	$ 49,280

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 $2.6 billion at April 30, 2004 and 2003, respectively. External market forces impact the probability of commitments being exercised, and therefore, total commitments outstanding do not necessarily represent future cash requirements.

The Company is responsible for servicing mortgage loans for others of $36.5 billion and subservicing loans of $8.8 billion at April 30, 2004.

The Company has entered into whole loan sale agreements with investors in the normal course of business, which include standard representations and warranties customary to the mortgage banking industry. The Company has commitments to sell loans of $4.7 billion and $1.5 billion as of April 30, 2004 and 2003, respectively.

Violations of these representations and warranties may require the Company to repurchase loans previously sold. In accordance with these loan sale agreements, the Company repurchased loans with an outstanding principal balance of $192.3 million and $182.0 million during the fiscal years ended April 30, 2004 and 2003, respectively. A liability has been established related to the potential loss on repurchase of loans previously sold of $25.2 million and $18.9 million at April 30, 2004 and 2003, respectively. Repurchased loans are normally sold in subsequent sale transactions. On an ongoing basis, management monitors the adequacy of this liability, which is established upon the initial sale of the loans, and is included in accounts payable, accrued expenses and deposits in the consolidated balance sheets. In determining the adequacy of the recourse liability, management considers such factors as known problem loans, underlying collateral values, historical loan loss experience, assessment of economic conditions and other appropriate data to identify the risks in the mortgage loans held for sale.

The Company is required, under the terms of its securitizations, to build and/or maintain overcollateralization (“OC”) to specified levels, using the excess cash flows received, until specified percentages of the securitized portfolio are attained. The Company funds the OC account from the proceeds of the sale. Future cash flows to the residual holder are used to amortize the bonds until a specific percentage of either the original or current balance is retained, which is specified in the securitization agreement. The bondholders’ recourse to the Company for credit losses is limited to the excess cash flows received and the amount of OC held by the trust. Upon maturity of the bonds, any remaining amounts in the trust are distributed. The estimated future cash flows to be distributed to the Company are included as part of the residual valuation and are valued upon distribution from the OC account. As of April 30, 2004 and 2003, $316.0 million and $309.6 million, respectively, was maintained in various OC accounts. These accounts are not assets of the Company and are not reflected in the accompanying consolidated financial statements.

Option One Mortgage Corporation provides a guarantee up to a maximum amount equal to approximately 10% of the aggregate principal balance of mortgage loans held by the Trusts before ultimate disposition of the loans by the Trusts. This guarantee would be called upon in the event adequate proceeds were not available from the sale of the mortgage loans to satisfy the current or ultimate payment obligations of the Trusts. No losses have been sustained on this commitment since its inception. The total principal amount of Trust obligations outstanding as of April 30, 2004 and 2003 was $3.2 billion and $2.2 billion, respectively. The fair value of mortgage loans held by the Trusts as of April 30, 2004 and 2003 was $3.3 billion and $2.3 billion, respectively.

The Company is required, in the event of non-delivery of customers’ securities owed to it by other broker-dealers or by its customers, to purchase identical securities in the open market. Such purchases could result in losses not reflected in the accompanying consolidated financial statements.

As of April 30, 2004, the Company had pledged securities totaling $46.3 million, which satisfied margin deposit requirements of $38.5 million.

The Company monitors the credit standing of brokers and dealers and customers with whom it does business. In addition, the Company monitors the market value of collateral held and the market value of securities receivable from others, and seeks to obtain additional collateral if insufficient protection against loss exists.

The Company and its subsidiaries have various contingent purchase price obligations in connection with prior acquisitions. In many cases, contingent payments to be made in connection with these acquisitions are not subject to a stated limit. The Company estimates the potential payments (undiscounted) total approximately $7.8 million as of April 30, 2004. The Company’s estimate is based on current financial conditions. Should actual results differ materially from the assumptions, the potential payments will differ from the above estimate. Such payments, if and when paid, would be recorded as additional goodwill.

At April 30, 2004, the Company had a receivable from M&P of $5.8 million. This amount is included in receivables in the consolidated balance sheet. Commitments exist to loan M&P up to $40.0 million at April 30, 2004, which is the lower of the value of their accounts receivable, work-in-process and fixed assets or $40.0 million, on a revolving basis through July 31, 2004, subject to certain termination clauses. This revolving facility bears interest at prime rate plus four and one-half percent on the outstanding amount and a commitment fee of one-half percent per annum on the unused portion of the commitment. The loan is fully secured by the accounts receivable, work-in-process and fixed assets of M&P. The Company anticipates entering into a new revolving facility, which will extend the loan past July 31, 2004.

The Company has contractual commitments to fund certain franchises requesting Franchise Equity Lines of Credit (“FELCs”). The commitment to fund FELCs as of April 30, 2004 totaled $27.0 million, with a related receivable balance of $35.9 million included in the consolidated balance sheets. The receivable represents the amount drawn on the FELCs as of April 30, 2004.

The Company is self-insured for certain risks, including certain employee health and benefit, workers’ compensation, property and general liability claims, and claims related to its POM program. In fiscal year 2004, the Company issued two standby letters of credit to servicers paying claims related to the Company’s worker’s compensation and POM programs. These letters of credit are for amounts not to exceed $0.9 million and $3.6 million, respectively. At April 30, 2004 there were no balances outstanding on these letters of credit.

During fiscal year 2004, the Company announced plans to construct a new world headquarters facility in downtown Kansas City, Missouri. The Company is in negotiations to enter into contractual commitments with the City of Kansas City and a general contractor for the construction of the building. As of April 30, 2004, no commitment for the total cost of the building had been negotiated. The Company expects the total expenditure associated with this building to be in the

range of $140 million to $160 million, and to be paid out over the next three fiscal years.

The Company and its subsidiaries routinely enter into contracts that include embedded indemnifications that have characteristics similar to guarantees. Other guarantees and indemnifications of the Company and its subsidiaries include obligations to protect counter parties from losses arising from the following: (1) tax, legal and other risks related to the purchase or disposition of businesses; (2) penalties and interest assessed by Federal and state taxing authorities in connection with tax returns prepared for clients; (3) indemnification of the Company's directors and officers; and (4) third-party claims relating to various arrangements in the normal course of business. Typically, there is no stated maximum payment related to these indemnifications, and the term of indemnities may vary and in many cases is limited only by the applicable statute of limitations. The likelihood of any claims being asserted against the Company or its subsidiaries and the ultimate liability related to any such claims, if any, is difficult to predict. While management cannot provide assurance the Company and its subsidiaries will ultimately prevail in the event any such claims are asserted, management believes the fair value of these guarantees and indemnifications is not material as of April 30, 2004.

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

Future minimum lease commitments at April 30, 2004 are as follows:

(in 000s)	
2005	**$199,292**
2006	**150,441**
2007	**107,944**
2008	**56,694**
2009	**34,915**
2010 and beyond	**48,597**
	$597,883

The Company's rent expense for fiscal years 2004, 2003 and 2002 totaled $239.8 million, $211.7 million and $190.4 million, respectively.

In the regular course of business, the Company is subject to routine examinations by Federal, state and local taxing authorities. In management's opinion, the disposition of matters raised by such taxing authorities, if any, in such tax examinations would not have a material adverse impact on the Company's consolidated financial statements.

Risks: Loans to borrowers who do not meet traditional underwriting criteria (non-prime borrowers) present a higher level of risk of default than federal agency prime loans, because of the increased potential for default by borrowers who may have previous credit problems or who do not have any credit history. Loans to non-prime borrowers also involve additional liquidity risks, as these loans generally have a more limited secondary market than prime loans. The actual rates of delinquencies, foreclosures and losses on loans to non-prime borrowers could be higher under adverse economic conditions than those currently experienced in the mortgage lending industry in general. While the Company believes the underwriting procedures and appraisal processes it employs enable it to mitigate certain risks inherent in loans made to these borrowers, no assurance can be given that such procedures or processes will afford adequate protection against such risks.

Commitments to fund loans involve, to varying degrees, elements of credit risk and interest rate risk in excess of the amount recognized in the financial statements. Credit risk is mitigated by the Company's evaluation of the creditworthiness of potential borrowers on a case-by-case basis.

Risks to the stability of Mortgage Operations include external events impacting the asset-backed securities market, such as the level of and fluctuations in interest rates, real estate and other asset values, changes in the securitization market and competition.

NOTE 20: LITIGATION COMMITMENTS AND CONTINGENCIES

The Company has been involved in a number of RAL class actions and putative RAL class action cases since 1990. Although the Company has successfully defended many such cases, it incurred a pretax expense of $43.5 million in fiscal year 2003 in connection with the settlement of one such case. Several of these cases are still pending and the amounts claimed in some of them is very substantial. To avoid the uncertainty of litigation and the diversion of resources and personnel resulting from the lawsuits, the Company, the lending bank, and the plaintiffs in the case *Joel E. Zawikowski, et al. v. Beneficial National Bank, H&R Block, Inc., et al.* (renamed *Lynne A. Carnegie, et al. v. H&R Block, Inc., et al.*), Case No. 98-C-2178 in the United States District Court for Northern Illinois, had agreed to a settlement class and a settlement of RAL-related claims on a nationwide basis. Under that settlement, the Company and the lending bank agreed to each pay $12.5 million toward a $25.0 million settlement fund for the benefit of the class members. The settlement was approved by the District Court in February 2001. Certain class members who had objected to the settlement appealed the order approving the settlement to the Seventh Circuit Court of Appeals. In April 2002, the Court of Appeals reversed the District Court's order approving the settlement and remanded the matter back to the District Court for further consideration of the fairness and adequacy of the proposed settlement by a new District Court judge. In April 2003, the District Court judge declined to approve the $25.0 million settlement, finding that counsel for the settlement plaintiffs had been inadequate representatives of the plaintiff class and failed to sustain their burden of showing that the settlement was fair. The judge subsequently appointed new counsel for the plaintiffs who filed an amended complaint and a motion for partial summary judgment. In March 2004, the court either dismissed or decertified all of the plaintiffs' claims other than part of one count alleging violations of the racketeering and conspiracy provision of the Racketeer Influenced and Corrupt Organizations act. The Company intends to continue defending the case and the remaining RAL class action litigation vigorously, but there are no assurances as to their outcome. We have accrued our best estimate of the probable loss related to the RAL cases.

The Company and certain of its current and former officers and directors are named defendants in litigation entitled *Paul White, et al. v. H&R Block, et al.,* consolidated Case Numbers 02CV8965, 02CV9661, 02CV9682 and 02CV9830 pending in the United States District Court for the Southern District of New York since the third quarter of fiscal year 2003. The respective named plaintiffs seek to represent a class of shareholders who purchased the Company's stock between November 8, 1997 and November 6, 2002, and allege that the defendants violated Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder by failing to disclose to shareholders various cases in which the Company had been sued regarding the RAL program, by failing to set adequate reserves for those cases, and by failing to disclose the supposed implications of those cases for the future of the RAL program. The four securities law cases were all assigned to the same judge and consolidated for pre-trial matters. A

consolidated complaint was filed in March 2003 and the defendants responded by filing a motion to dismiss in April 2003. In response to defendants' motion to dismiss, the plaintiffs informed defendants that they wished further to amend their complaint. Defendants consented to the filing of an amended complaint as a pleading matter, the plaintiffs filed the amended complaint, and the defendants filed a motion to dismiss it in August 2003. The Company believes the claims in these actions are without merit and intends to defend them vigorously.

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

It is the Company's policy to accrue for amounts related to legal matters if it is probable that a liability has been incurred and an amount is reasonably estimable. Many of the various legal proceedings are covered in whole, or in part, by insurance.

NOTE 21: SEGMENT INFORMATION

The principal business activity of the Company's operating subsidiaries is providing tax and financial services and products to the general public. Management has determined the reportable segments identified below according to types of services offered, geographic locations in which operations are conducted, and the manner in which operational decisions are made. 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 and products in the United States. Segment revenues include fees earned for tax-related services performed at company-owned tax offices, royalties from franchise offices, sales of tax preparation and other software, fees from online tax preparation, and payments related to RALs. This segment includes the Company's tax preparation software – TaxCut® from H&R Block, and other personal productivity software offered to the general public, and offers online do-it-yourself-tax preparation, online tax advice to the general public through the *www.hrblock.com* website and online drop-off (whereby the client fills out an online tax organizer and sends it to a tax professional for preparation). Revenues of this segment are seasonal in nature.

Mortgage Operations: This segment is primarily engaged in the origination of non-prime mortgage loans, sales and securitizations of mortgage assets and servicing of non-prime loans in the United States. This segment mainly offers, through a network of mortgage brokers, a flexible product line to borrowers who are creditworthy but do not meet traditional underwriting criteria. Prime mortgage loan products, as well as the same flexible product line available through brokers, are offered through H&R Block Mortgage Corporation retail offices and some other retail offices.

Business Services: This segment offers middle-market companies accounting, tax and consulting services, wealth management, retirement resources, payroll services, corporate finance, and financial process outsourcing. This segment offers services through offices located throughout the United States. Revenues of this segment are seasonal in nature.

Investment Services: This segment is primarily engaged in offering investment services and securities products through H&R Block Financial Advisors, Inc., a full-service securities broker, to the general public. Investment advice and services are primarily offered through H&R Block Financial Advisors branch offices.

International Tax Operations: This segment is primarily engaged in providing local tax return preparation, filing, and related services to the general public in Canada, Australia and the United Kingdom. In addition, International Tax Operations prepares U.S. tax returns for U.S. citizens living abroad. Tax-related service revenues include fees from company-owned tax offices and royalties from franchised offices. Revenues of this segment are seasonal in nature. The majority of the foreign countries in which subsidiaries of the Company operate, which are individually immaterial, are included within this segment.

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

Identifiable assets: Identifiable assets are those assets, including goodwill and intangible assets, associated with each reportable segment. The remaining assets are classified as corporate assets and consist primarily of cash, marketable securities and equipment.

Information concerning the Company's operations by reportable segment as of and for the years ended April 30, 2004, 2003 and 2002 is as follows:

(in 000s)

Year ended April 30,	**2004**	2003	2002
REVENUES:			
U.S. Tax Operations	**$2,093,617**	$1,861,681	$1,831,274
Mortgage Operations	**1,281,399**	1,165,411	702,333
Business Services	**499,210**	434,140	416,926
Investment Services	**229,470**	200,794	250,685
International Tax Operations	**97,560**	85,082	78,710
Corporate Operations	**4,314**	(651)	5,773
	$4,205,570	$3,746,457	$3,285,701
INCOME (LOSS) BEFORE TAXES:			
U.S. Tax Operations	**$ 627,592**	$ 547,078	$ 533,468
Mortgage Operations	**678,261**	693,950	339,388
Business Services	**19,321**	(14,118)	22,716
Investment Services	**(64,446)**	(128,292)	(54,862)
International Tax Operations	**11,097**	10,464	7,093
Corporate Operations	**(107,668)**	(122,005)	(130,963)
	$1,164,157	$ 987,077	$ 716,840
DEPRECIATION AND AMORTIZATION:			
U.S. Tax Operations	**$ 73,029**	$ 58,131	$ 59,258
Mortgage Operations	**24,428**	21,703	14,753
Business Services	**23,104**	23,134	21,390
Investment Services	**47,285**	53,984	52,182
International Tax Operations	**3,250**	3,356	4,854
Corporate Operations	**942**	1,513	2,949
	$ 172,038	$ 161,821	$ 155,386
Goodwill impairments:			
Business Services	**–**	11,777	–
Investment Services	**–**	24,000	–
	–	35,777	–
	$ 172,038	$ 197,598	$ 155,386

(in 000s)

Year ended April 30,	**2004**	2003	2002
CAPITAL EXPENDITURES:			
U.S. Tax Operations	**$ 46,729**	$ 62,383	$ 58,683
Mortgage Operations	**28,176**	38,204	23,087
Business Services	**18,003**	15,248	10,676
Investment Services	**14,278**	15,562	10,268
International Tax Operations	**3,475**	3,086	4,407
Corporate Operations	**16,912**	16,414	4,654
	$ 127,573	$ 150,897	$ 111,775
IDENTIFIABLE ASSETS:			
U.S. Tax Operations	**$ 622,884**	$ 281,340	$ 269,476
Mortgage Operations	**1,200,928**	1,320,233	1,387,774
Business Services	**636,492**	674,566	665,018
Investment Services	**1,685,190**	1,489,297	1,656,469
International Tax Operations	**40,390**	33,142	47,820
Corporate Operations	**1,194,142**	968,730	358,083
	$5,380,026	$4,767,308	$4,384,640

NOTE 22: QUARTERLY FINANCIAL DATA (UNAUDITED)

(in 000s, except per share amounts)

Fiscal Year 2004 Quarter Ended	April 30, 2004	January 31, 2004	October 31, 2003	July 31, 2003	Total
Revenues	$2,191,793	$959,541	$562,912	$491,324	$4,205,570
Income before taxes	952,074	176,120	17,134	18,829	1,164,157
Income taxes	376,439	69,394	6,758	7,310	459,901
Net income before change in accounting principle	575,635	106,726	10,376	11,519	704,256
Cumulative effect of change in accounting principle	–	–	–	(6,359)	(6,359)
Net income	$ 575,635	$106,726	$ 10,376	$ 5,160	$ 697,897
Basic earnings per share:					
Before change in accounting principle	$ 3.30	$ .60	$ .06	$ .06	$ 3.98
Net income	3.30	.60	.06	.03	3.94
Diluted earnings per share:					
Before change in accounting principle	$ 3.23	$ .59	$ .06	$ .06	$ 3.90
Net income	3.23	.59	.06	.03	3.86
Dividends per share	$ .20	$ .20	$ .20	$ .18	$ .78
Stock price range:					
High	$ 61.00	$ 60.18	$ 48.36	$ 46.00	$ 61.00
Low	44.50	47.14	40.55	36.30	36.30

(in 000s, except per share amounts)

Fiscal Year 2003 Quarter Ended	April 30, 2003	January 31, 2003	October 31, 2002	July 31, 2002	Total
Revenues	$1,909,755	$949,272	$465,041	$422,389	$3,746,457
Income (loss) before taxes (benefit)	842,294	222,934	(62,245)	(15,906)	987,077
Income taxes (benefit)	347,652	90,621	(24,898)	(6,362)	407,013
Net income (loss)	$ 494,642	$132,313	$ (37,347)	$ (9,544)	$ 580,064
Basic earnings per share	$ 2.76	$ .74	$ (.21)	$ (.05)	$ 3.23
Diluted earnings per share	2.71	.73	(.21)	(.05)	3.15
Dividends per share	$ .18	$ .18	$ .18	$ .16	$ .70
Stock price range:					
High	$ 44.35	$ 43.05	$ 53.15	$ 48.28	$ 53.15
Low	35.47	30.74	37.45	40.00	30.74

Quarterly revenues for fiscal year 2004 and 2003 in the table above have been adjusted from the reported amounts on Form 10-Q. Reclassifications between revenues and expenses were made in the fourth quarter of fiscal year 2004 which related to previous quarters in fiscal year 2004. The prior year quarters were adjusted to conform to the current period presentation. Net income did not change in any quarter as a result of these adjustments. Additionally, upon adoption of EITF 00-21 in the second quarter of fiscal year 2004, the first quarter results were restated.

The accumulation of four quarters in fiscal years 2004 and 2003 for earnings per share may not equal the related per share amounts for the years ended April 30, 2004 and 2003 due to the repurchase of treasury shares, the timing of the exercise of stock options, and the antidilutive effect of stock options in the first two quarters.

NOTE 23: CONDENSED CONSOLIDATING FINANCIAL STATEMENTS

Block Financial Corporation (“BFC”) is an indirect, wholly-owned subsidiary of the Company. BFC is the Issuer and the Company is the Guarantor of the $250.0 million 6 3/4% Senior Notes issued on October 21, 1997 and of the $500.0 million 8 1/2% Senior Notes issued on April 13, 2000. The Company’s guarantee is full and unconditional. The following condensed consolidating financial statements present separate information for BFC, the Company and for the Company’s other subsidiaries, and should be read in conjunction with the consolidated financial statements of the Company.

These condensed consolidating financial statements have been prepared using the equity method of accounting. Income of subsidiaries is, therefore, reflected in the Company’s investment in subsidiaries account. The elimination entries eliminate investments in subsidiaries, related stockholder’s equity and other intercompany balances and transactions.

Condensed Consolidating Income Statements

(in 000s)

Year Ended April 30, 2004	H&R Block, Inc. (Guarantor)	BFC (Issuer)	Other Subsidiaries	Eliminations	Consolidated H&R Block
Total revenues	**$ –**	**$1,802,461**	**$2,404,669**	**$ (1,560)**	**$4,205,570**
Expenses:					
Compensation & benefits	**–**	**465,839**	**1,144,544**	**(280)**	**1,610,103**
Occupancy & equipment	**–**	**79,399**	**305,226**	**(3)**	**384,622**
Interest	**–**	**45,580**	**38,976**	**–**	**84,556**
Depreciation & amortization	**–**	**72,482**	**99,556**	**–**	**172,038**
Marketing & advertising	**–**	**42,664**	**146,117**	**(464)**	**188,317**
Supplies, freight & postage	**–**	**19,555**	**69,634**	**–**	**89,189**
Other	**–**	**382,073**	**140,809**	**(440)**	**522,442**
	–	**1,107,592**	**1,944,862**	**(1,187)**	**3,051,267**
Operating income	**–**	**694,869**	**459,807**	**(373)**	**1,154,303**
Other income, net	**1,164,157**	**–**	**9,854**	**(1,164,157)**	**9,854**
Income before taxes	**1,164,157**	**694,869**	**469,661**	**(1,164,530)**	**1,164,157**
Income taxes	**459,901**	**280,956**	**179,092**	**(460,048)**	**459,901**
Income before change in accounting	**704,256**	**413,913**	**290,569**	**(704,482)**	**704,256**
Cumulative effect of change in accounting	**(6,359)**	**–**	**(6,359)**	**6,359**	**(6,359)**
Net income	**$ 697,897**	**$ 413,913**	**$ 284,210**	**$ (698,123)**	**$ 697,897**

Year Ended April 30, 2003	H&R Block, Inc. (Guarantor)	BFC (Issuer)	Other Subsidiaries	Eliminations	Consolidated H&R Block
Total revenues	$ –	$1,567,917	$2,180,009	$ (1,469)	$3,746,457
Expenses:					
Compensation & benefits	–	391,603	995,867	261	1,387,731
Occupancy & equipment	–	73,837	272,123	–	345,960
Interest	–	62,294	30,350	–	92,644
Depreciation & amortization	–	101,613	95,985	–	197,598
Marketing & advertising	–	34,612	117,110	(875)	150,847
Supplies, freight & postage	–	21,717	67,031	–	88,748
Other	–	256,004	247,518	(835)	502,687
	–	941,680	1,825,984	(1,449)	2,766,215
Operating income	–	626,237	354,025	(20)	980,242
Other income, net	987,077	–	6,835	(987,077)	6,835
Income before taxes	987,077	626,237	360,860	(987,097)	987,077
Income taxes	407,013	265,079	141,926	(407,005)	407,013
Net income	$580,064	$ 361,158	$ 218,934	$(580,092)	$ 580,064

Year Ended April 30, 2002	H&R Block, Inc. (Guarantor)	BFC (Issuer)	Other Subsidiaries	Eliminations	Consolidated H&R Block
Total revenues	$ –	$1,187,955	$2,112,438	$ (14,692)	$3,285,701
Expenses:					
Compensation & benefits	–	323,600	974,622	(63)	1,298,159
Occupancy & equipment	–	65,305	240,015	67	305,387
Interest	–	100,800	15,341	–	116,141
Depreciation & amortization	–	69,497	85,889	–	155,386
Marketing & advertising	–	20,642	136,342	(1,255)	155,729
Supplies, freight & postage	–	15,000	60,804	(94)	75,710
Other	–	291,986	184,993	(13,218)	463,761
	–	886,830	1,698,006	(14,563)	2,570,273
Operating income	–	301,125	414,432	(129)	715,428
Other income, net	716,840	(2,028)	3,440	(716,840)	1,412
Income before taxes	716,840	299,097	417,872	(716,969)	716,840
Income taxes	282,435	123,884	158,602	(282,486)	282,435
Net income	$434,405	$ 175,213	$ 259,270	$(434,483)	$ 434,405

Condensed Consolidating Balance Sheets

(in 000s)

April 30, 2004	H&R Block, Inc. (Guarantor)	BFC (Issuer)	Other Subsidiaries	Eliminations	Consolidated H&R Block
Cash & cash equivalents	**$ –**	**$ 132,076**	**$ 939,600**	**$ –**	**$1,071,676**
Cash & cash equivalents – restricted	**–**	**532,201**	**13,227**	**–**	**545,428**
Receivables from customers, brokers and dealers, net	**–**	**625,076**	**–**	**–**	**625,076**
Receivables, net	**180**	**168,879**	**178,851**	**–**	**347,910**
Intangible assets and goodwill, net	**–**	**461,791**	**823,456**	**–**	**1,285,247**
Investments in subsidiaries	**4,291,693**	**205**	**297**	**(4,291,693)**	**502**
Other assets	**(145)**	**1,115,435**	**389,270**	**(373)**	**1,504,187**
Total assets	**$4,291,728**	**$3,035,663**	**$ 2,344,701**	**$(4,292,066)**	**$5,380,026**
Accounts payable to customers, brokers and dealers	**$ –**	**$1,065,793**	**$ –**	**$ –**	**$1,065,793**
Long-term debt	**–**	**498,225**	**47,586**	**–**	**545,811**
Other liabilities	**15,879**	**509,151**	**1,345,822**	**561**	**1,871,413**
Net intercompany advances	**2,378,840**	**(327,834)**	**(2,050,445)**	**(561)**	**–**
Stockholders' equity	**1,897,009**	**1,290,328**	**3,001,738**	**(4,292,066)**	**1,897,009**
Total liabilities and stockholders' equity	**$4,291,728**	**$3,035,663**	**$ 2,344,701**	**$(4,292,066)**	**$5,380,026**

(in 000s)

April 30, 2003	H&R Block, Inc. (Guarantor)	BFC (Issuer)	Other Subsidiaries	Eliminations	Consolidated H&R Block
Cash & cash equivalents	$ –	$ 180,181	$ 695,172	$ –	$ 875,353
Cash & cash equivalents – restricted	–	420,787	17,455	–	438,242
Receivables from customers, brokers and dealers, net	–	517,037	–	–	517,037
Receivables, net	168	171,612	231,417	–	403,197
Intangible assets and goodwill, net	–	491,091	564,989	–	1,056,080
Investments in subsidiaries	3,546,734	215	1,105	(3,546,734)	1,320
Other assets	(1,321)	1,182,521	293,930	949	1,476,079
Total assets	$3,545,581	$2,963,444	$ 1,804,068	$(3,545,785)	$4,767,308
Accounts payable to customers, brokers and dealers	$ –	$ 862,694	$ –	$ –	$ 862,694
Long-term debt	–	747,550	74,752	–	822,302
Other liabilities	2,654	360,125	1,055,860	(36)	1,418,603
Net intercompany advances	1,879,218	125,627	(2,005,346)	501	–
Stockholders' equity	1,663,709	867,448	2,678,802	(3,546,250)	1,663,709
Total liabilities and stockholders' equity	$3,545,581	$2,963,444	$ 1,804,068	$(3,545,785)	$4,767,308

Condensed Consolidating Statements of Cash Flows

(in 000s)

Year Ended April 30, 2004	H&R Block, Inc. (Guarantor)	BFC (Issuer)	Other Subsidiaries	Eliminations	Consolidated H&R Block
Net cash provided by operating activities:	**$ 64,782**	**$ 184,949**	**$ 677,076**	**$ –**	**$ 926,807**
Cash flows from investing activities:					
Purchases of available-for-sale securities	**–**	**–**	**(11,434)**	**–**	**(11,434)**
Cash received on residual interests	**–**	**193,606**	**–**	**–**	**193,606**
Sales of available-for-sale securities	**–**	**53,391**	**15,410**	**–**	**68,801**
Purchases of property & equipment, net	**–**	**(39,229)**	**(88,344)**	**–**	**(127,573)**
Payments made for business acquisitions	**–**	**–**	**(280,865)**	**–**	**(280,865)**
Net intercompany advances	**473,521**	**–**	**–**	**(473,521)**	**–**
Other, net	**–**	**12,655**	**13,677**	**–**	**26,332**
Net cash provided by (used in) investing activities	**473,521**	**220,423**	**(351,556)**	**(473,521)**	**(131,133)**
Cash flows from financing activities:					
Repayments of commercial paper	**–**	**(4,618,853)**	**–**	**–**	**(4,618,853)**
Proceeds from issuance of commercial paper	**–**	**4,618,853**	**–**	**–**	**4,618,853**
Payments on acquisition debt	**–**	**–**	**(59,003)**	**–**	**(59,003)**
Dividends paid	**(138,397)**	**–**	**–**	**–**	**(138,397)**
Acquisition of treasury shares	**(519,862)**	**–**	**–**	**–**	**(519,862)**
Proceeds from issuance of common stock	**119,956**	**–**	**–**	**–**	**119,956**
Net intercompany advances	**–**	**(453,477)**	**(20,044)**	**473,521**	**–**
Other, net	**–**	**–**	**(2,045)**	**–**	**(2,045)**
Net cash provided by (used in) financing activities	**(538,303)**	**(453,477)**	**(81,092)**	**473,521**	**(599,351)**
Net increase (decrease) in cash and cash equivalents	**–**	**(48,105)**	**244,428**	**–**	**196,323**
Cash and cash equivalents at beginning of the year	**–**	**180,181**	**695,172**	**–**	**875,353**
Cash and cash equivalents at end of the year	**$ –**	**$ 132,076**	**$ 939,600**	**$ –**	**$ 1,071,676**

Year Ended April 30, 2003	H&R Block, Inc. (Guarantor)	BFC (Issuer)	Other Subsidiaries	Eliminations	Consolidated H&R Block
Net cash provided by operating activities	$ 36,560	$ 140,617	$ 513,648	$ –	$ 690,825
Cash flows from investing activities:					
Purchases of available-for-sale securities	–	–	(14,614)	–	(14,614)
Maturities of available-for-sale securities	–	140,795	–	–	140,795
Sales of available-for-sale securities	–	142,486	14,081	–	156,567
Purchases of property & equipment, net	–	(37,999)	(112,898)	–	(150,897)
Payments made for business acquisitions	–	–	(26,408)	–	(26,408)
Net intercompany advances	280,583	–	–	(280,583)	–
Other, net	–	(1,480)	21,376	–	19,896
Net cash provided by (used in) investing activities	280,583	243,802	(118,463)	(280,583)	125,339
Cash flows from financing activities:					
Repayments of commercial paper	–	(9,925,516)	–	–	(9,925,516)
Proceeds from issuance of commercial paper	–	9,925,516	–	–	9,925,516
Payments on acquisition debt	–	–	(57,469)	–	(57,469)
Dividends paid	(125,898)	–	–	–	(125,898)
Acquisition of treasury shares	(317,570)	–	–	–	(317,570)
Proceeds from issuance of common stock	126,325	–	–	–	126,325
Net intercompany advances	–	(402,197)	121,614	280,583	–
Other, net	–	–	(2,344)	–	(2,344)
Net cash provided by (used in) financing activities	(317,143)	(402,197)	61,801	280,583	(376,956)
Net increase (decrease) in cash and cash equivalents	–	(17,778)	456,986	–	439,208
Cash and cash equivalents at beginning of the year	–	197,959	238,186	–	436,145
Cash and cash equivalents at end of the year	$ –	$ 180,181	$ 695,172	$ –	$ 875,353

Year Ended April 30, 2002	H&R Block, Inc. (Guarantor)	BFC (Issuer)	Other Subsidiaries	Eliminations	Consolidated H&R Block
Net cash provided by operating activities	$ 58,927	$ 256,188	$ 426,331	$ –	$ 741,446
Cash flows from investing activities:					
Purchases of available-for-sale securities	–	–	(7,241)	–	(7,241)
Maturities of available-for-sale securities	–	67,070	8,250	–	75,320
Sales of available-for-sale securities	–	–	23,173	–	23,173
Purchases of property & equipment, net	–	(36,434)	(75,341)	–	(111,775)
Payments made for business acquisitions	–	–	(46,738)	–	(46,738)
Net intercompany advances	324,503	–	–	(324,503)	–
Other, net	–	(4,069)	12,297	–	8,228
Net cash provided by (used in) investing activities	324,503	26,567	(85,600)	(324,503)	(59,033)
Cash flows from financing activities:					
Repayments of commercial paper	–	(10,622,011)	–	–	(10,622,011)
Proceeds from issuance of commercial paper	–	10,622,011	–	–	10,622,011
Payments on acquisition debt	–	–	(50,594)	–	(50,594)
Dividends paid	(115,725)	–	–	–	(115,725)
Acquisition of treasury shares	(462,938)	–	–	–	(462,938)
Proceeds from issuance of common stock	195,233	–	–	–	195,233
Net intercompany advances	–	(167,738)	(156,765)	324,503	–
Other, net	–	–	140	–	140
Net cash used in financing activities	(383,430)	(167,738)	(207,219)	324,503	(433,884)
Net increase in cash and cash equivalents	–	115,017	133,512	–	248,529
Cash and cash equivalents at beginning of the year	–	82,942	104,674	–	187,616
Cash and cash equivalents at end of the year	$ –	$ 197,959	$ 238,186	$ –	$ 436,145

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

The information called for by this item regarding the change in independent accountants following completion of the audit of our financial statements for the fiscal year ended April 30, 2003 was previously reported (as such term is defined in Rule 12b-2 of the Securities Exchange Act of 1934, as amended) in the current reports on Form 8-K dated May 12, 2003 and July 10, 2003 and Form 8-K/ A dated May 12, 2003.

ITEM 9A. CONTROLS AND PROCEDURES

Disclosures controls are procedures that are designed with the objective of ensuring that information required to be disclosed in reports filed or submitted under the Securities Exchange Act of 1934, such as this Form 10-K, is recorded, processed, summarized and reported in accordance with the SEC's rule. Disclosure controls are also designed with the objective of ensuring that such information is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer or persons performing similar functions, as appropriate, to allow timely decisions regarding disclosure.

Our Disclosure Controls were designed to provide reasonable assurance that the controls and procedures would meet their objectives. Our management, including the CEO and Principal Accounting Officer, does not expect that our Disclosure Controls will prevent all error and all fraud. A control system, no matter how well designed and operated, can provide only reasonable assurance of achieving the designed control objectives and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simply error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusions of two or more people, or by management override of the control. Because of the inherent limitations in a cost-effective, maturing control system, misstatements due to error or fraud may occur and not be detected.

As of the end of the period covered by this Form 10-K, we evaluated the effectiveness of the design and operation of our Disclosure Controls. The controls evaluation was done under the supervision and with the participation of management, including our CEO and Principal Accounting Officer.

The evaluation of our Disclosure Controls included a review of the controls' objectives and design, our implementation of the controls and the effect of the controls on the information generated for the use in this Form 10-K. In the course of the controls evaluation, we identified a series of control weaknesses related to our corporate tax accounting function. These weaknesses relate specifically to the reconciliation and level of detailed support of both current and deferred income tax accounts. We also determined an acceleration of taxable income was warranted in one of our segments, however, there was no change to our total income tax provision. Upon identification of these control weaknesses, immediate corrective action was undertaken. Our efforts to strengthen financial and internal controls continue. We expect these efforts to be completed by the end of fiscal year 2005.

Based on this evaluation, other than the item described above, our CEO and Principal Accounting Officer have concluded these controls are effective. There have been no significant changes in internal controls, or in other factors, which would significantly affect these controls subsequent to the date of evaluation.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The following information appearing in our definitive proxy statement, to be filed no later than 120 days after April 30, 2004, is incorporated herein by reference:

- Information appearing under the heading "Election of Directors"
- Information appearing under the heading "Section 16(a) Beneficial Ownership Reporting Compliance"
- Information appearing under the heading "Board of Directors' Meetings and Committees" regarding identification of the Audit Committee and Audit Committee financial experts.

We have adopted a code of business ethics and conduct that applies to our directors, officers and employees, including our chief executive officer, chief financial officer, principal accounting officer and persons performing similar functions. A copy of the code of business ethics and conduct is available on our website at *www.hrblock.com.*

Information about our executive officers as of May 15, 2004 is as follows:

Name, age	Current Position	Business Experience Since May 1, 1999
Mark A. Ernst, age 46	Chairman of the Board, President and Chief Executive Officer	Chairman of the Board of Directors since September 2002; Chief Executive Officer since January 2001; President of the Company since September 1999; Chief Operating Officer from September 1998 through December 2000; Executive Vice President from September 1998 until September 1999. Mr. Ernst has been a Member of the Board of Directors since September 1999.
Jeffery W. Yabuki, age 44	Executive Vice President and Chief Operating Officer	Chief Operating Officer since April 2002; Executive Vice President since October 2000; President, H&R Block Services, Inc. since October 2000; President, H&R Block International from September 1999 until October 2000; President and Chief Executive Officer of American Express Tax & Business Services, Inc., from 1998 to September 1999.
Melanie K. Coleman, age 39	Vice President and Corporate Controller	Vice President and Corporate Controller since October 2002; Assistant Vice President and Assistant Controller at Sprint Corporation ("Sprint"), from December 2000 until October 2002; Executive Assistant to the Chief Financial Officer of Sprint from September 1999 until December 2000; Director, Capital Asset Accounting at Sprint from October 1998 until September 1999.
Robert E. Dubrish, age 52	President and Chief Executive Officer, Option One Mortgage Corporation	President and Chief Executive Officer, Option One Mortgage Corporation, since March 1996.
Brad C. Iversen, age 54	Senior Vice President and Chief Marketing Officer	Senior Vice President and Chief Marketing Officer since September 2003; Founded Catamount Marketing in 2002; Executive Vice President and Director of Marketing at Bank One Corporation from 1997 to 2002.
Linda M. McDougall, age 51	Vice President, Communications	Vice President, Communications since July 1999; Assistant Vice President, Communications from November 1995 through June 1999.
Timothy R. Mertz, age 53	Vice President, Corporate Tax	Vice President, Corporate Tax since October 2000; Vice President of Treasury for Payless Cashways, Inc., from September 1998 through September 2000.
Brian L. Nygaard, age 46	President and Chief Executive Officer, H&R Block Financial Advisors, Inc.	President and Chief Executive Officer, H&R Block Financial Advisors, Inc., since November 2001; President, ING Advisors Network, ING Group, from October 2000 until October 2001; Chief Operating Officer, Advisors Network, ING Advisors Network, from October 1999 until October 2000; Senior Vice President, Strategic Marketing, ING Advisors Network, from May 1999 until October 1999.
Tammy S. Serati, age 45	Senior Vice President, Human Resources	Senior Vice President, Human Resources since December 2002; Vice President, Human Resources Corporate Staffs, for Monsanto Agricultural Company, from May 2000 through November 2002; Vice President, Human Resources, Monsanto Nutrition & Consumer Sector, from January 1997 through April 2000.
Becky S. Shulman, age 39	Vice President and Treasurer	Vice President and Treasurer since September 2001; Chief Investment Officer of U.S. Central Credit Union, from September 1998 until August 2001.
Nicholas J. Spaeth, age 54	Senior Vice President and Chief Legal Officer	Senior Vice President and Chief Legal Officer since February 2004; Senior Vice President, General Counsel and Secretary of Intuit, Inc. from August 2003 to February 2004; Senior Vice President, General Counsel and Secretary, GE Employers Reinsurance Corporation from September 2000 until August 2003; Partner at Cooley Godward LLP from March 1998 until September 2000.
Steven Tait, age 44	President, RSM McGladrey Business Services, Inc.	President, RSM McGladrey Business Services, Inc. since April 2003; Executive Vice President, Sales & Client Operations, Gartner, Inc., from June 2001 through March 2003; Senior Vice President, Sales and Operations at Gartner, Inc. from July 2000 until May 2001; President and Chief Executive Officer of Xerox Connect, a wholly-owned subsidiary of Xerox Corporation,

from November 1999 until June 2000; Vice President, Xerox Global Services/ VP Xerox Offsite Document Management Services, from September 1998 until October 1999.

Name, age	Current Position	Business Experience Since May 1, 1999
Robert A. Weinberger, age 60	Vice President, Government Relations	Vice President, Government Relations, since March 1996.
Bret G. Wilson, age 45	Vice President and Secretary	Vice President and Secretary since October 2002; Vice President, Corporate Development and Risk Management from October 2000 until October 2002; Vice President, Corporate Planning and Development from September 1999 until October 2000; Vice President, Corporate Development, from December 1997 until September 1999.

ITEM 11. EXECUTIVE COMPENSATION

The information called for by this item is contained in our definitive proxy statement filed pursuant to Regulation 14A not later than 120 days after April 30, 2004, in the sections entitled "Director Compensation" and "Compensation of Executive Officers," and is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information called for by this item is contained in our definitive proxy statement filed pursuant to Regulation 14A not later than 120 days after April 30, 2004, in the section titled "Equity Compensation Plans" 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 our definitive proxy statement filed pursuant to Regulation 14A no later than 120 days after April 30, 2004, in the section titled "Employee Agreements, Change in Control and Other Arrangements," and is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information called for by this item is contained in our definitive proxy statement filed pursuant to Regulation 14A no later than 120 days after April 30, 2004, in the section titled "Audit Fees," and is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a) Documents filed as part of this Report:

1. The following financial statements appearing in Item 8: "Consolidated Income Statements;" "Consolidated Balance Sheets;" "Consolidated Statements of Cash Flows;" and "Consolidated Statements of Stockholders' Equity."
2. Financial Statement Schedule II – Valuation and Qualifying Accounts with the related Reports of Independent Registered Public Accounting Firms. These will be filed with the SEC but will not be included in the printed version of the Annual Report to Shareholders.
3. Exhibits: The list of exhibits in the Exhibit Index to this Report is incorporated herein by reference. The following exhibits are required to be filed as exhibits to this Form 10-K:

3.3	Amended and Restated Bylaws of H&R Block, Inc., as amended and restated as of June 9, 2004.
10.16	Employment Agreement dated February 2, 2004 between HRB Management, Inc. and Nicholas J. Spaeth.
10.23	Severance and Release Agreement dated February 10, 2004 between HRB Management, Inc. and James H. Ingraham.
10.24	Termination Agreement dated April 16, 2004 between HRB Management, Inc. and Jeffrey G. Brandmaier.
12	Computation of Ratio of Earnings to Fixed Charges for the five years ended April 30, 2004.
21	Subsidiaries of the Company.
23.1	Consent of KPMG LLP, Independent Registered Public Accounting Firm.
23.2	Consent of PricewaterhouseCoopers LLP, Independent Registered Public Accounting Firm.
31.1	Certification by Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification by Principal Accounting Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification by Chief Executive Officer pursuant to 18 U.S.C. 1350, as adopted by Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification by Principal Accounting Officer pursuant to 18 U.S.C. 1350, as adopted by Section 906 of the Sarbanes- Oxley Act of 2002.

The exhibits will be filed with the SEC but will not be included in the printed version of the Annual Report to Shareholders.

(b) Reports on Form 8-K:

We filed on February 24, 2004 an amended report on Form 8-K/ A dated May 12, 2003, with updated Item 4 disclosures as of and through the date of PricewaterhouseCoopers LLP's resignation (the termination date of the client/auditor relationship) as the Company's independent accountants.

We filed on February 26, 2004 a report on Form 8-K dated February 24, 2004, reporting under Item 12, Results of Operations and Financial Condition, our issuance of a press release regarding our results of operations for the fiscal quarter ended January 31, 2004.

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.

By /s/ MARK A. ERNST

Mark A. Ernst
Chairman of the Board, President and Chief Executive Officer

July 2, 2004

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/ MARK A. ERNST Mark A. Ernst	Chairman of the Board, President, Chief Executive Officer and Director (principal executive officer)
/s/ G. KENNETH BAUM G. Kenneth Baum	Director
/s/ THOMAS M. BLOCH Thomas M. Bloch	Director
/s/ DONNA R. ECTON Donna R. Ecton	Director
/s/ ROGER W. HALE Roger W. Hale	Director
/s/ TOM D. SEIP Tom D. Seip	Director
/s/ LOUIS W. SMITH Louis W. Smith	Director
/s/ RAYFORD WILKINS, JR. Rayford Wilkins, Jr.	Director
/s/ MELANIE K. COLEMAN Melanie K. Coleman	Vice President and Corporate Controller (principal accounting officer)

(Signed as to each on June 9, 2004)

EXHIBIT INDEX

The following exhibits are numbered in accordance with the Exhibit Table of Item 601 of Regulation S-K:

3.1	Restated Articles of Incorporation of H&R Block, Inc., as amended, filed as Exhibit 3.2 to the Company's quarterly report on Form 10-Q for the quarter ended October 31, 2001, file number 1-6089, are incorporated herein by reference.
3.2	Certificate of Amendment of Articles of Incorporation effective October 15, 2001, filed as Exhibit 3.1 to the Company's quarterly report on Form 10-Q for the quarter ended October 31, 2001, file number 1-6089, is incorporated herein by reference.
3.3	Amended and Restated Bylaws of H&R Block, Inc., as amended and restated as of June 9, 2004.
4.1	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, file number 1-6089, is incorporated herein by reference.
4.2	First Supplemental Indenture, dated as of April 18, 2000, among H&R Block, Inc., Block Financial Corporation, Bankers Trust Company and the Bank of New York, filed as Exhibit 4(a) to the Company's current report on Form 8-K dated April 13, 2000, file number 1-6089, is incorporated herein by reference.
4.3	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, file number 1-6089, is incorporated herein by reference.
4.4	Form of 8 1/2% Senior Note due 2007 of Block Financial Corporation, filed as Exhibit 4(b) to the Company's current report on Form 8-K dated April 13, 2000, file number 1-6089, is incorporated herein by reference.
4.5	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, file number 1-6089, is incorporated herein by reference.
4.6	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, file number 1-6089, is incorporated by reference.
4.7	Form of Certificate of Amendment of Certificate of Designation, Preferences and Rights of Participating Preferred Stock of H&R Block, Inc., filed as Exhibit 4(j) to the Company's annual report on Form 10-K for the fiscal year ended April 30, 1998, file number 1-6089, is incorporated by reference.
4.8	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, file number 1-6089, is incorporated by reference.
10.1 *	The Company's 1993 Long-Term Executive Compensation Plan, as amended and restated as of September 11, 2002, filed as Exhibit 10.1 to the Company's quarterly report on Form 10-Q for the quarter ended October 31, 2002, file number 1-6089, is incorporated by reference.
10.2 *	The Company's 2003 Long-Term Executive Compensation Plan, as amended and restated as of September 10, 2003, filed as Exhibit 10.2 to the Company's quarterly report on Form 10-Q for the quarter ended October 31, 2003, file number 1-6089, is incorporated by reference.
10.3 *	The H&R Block Deferred Compensation Plan for Directors, as Amended and Restated effective July 1, 2002, filed as Exhibit 10.2 to the Company's annual report on Form 10-K for the fiscal year ended April 30, 2002, file number 1-6089, is incorporated by reference.
10.4 *	The H&R Block Deferred Compensation Plan for Executives, as Amended and Restated July 1, 2002, filed as Exhibit 10.3 to the Company's annual report on Form 10-K for the fiscal year ended April 30, 2002, file number 1-6089, is incorporated by reference.
10.5 *	Amendment No. 1 to the H&R Block Deferred Compensation Plan for Executives, as Amended and Restated, effective as of March 12, 2003, filed as Exhibit 10.5 to the company's annual report on Form 10-K for the fiscal year ended April 30, 2003, file number 1-6089, is incorporated herein by reference.
10.6 *	The H&R Block Short-Term Incentive Plan, filed as Exhibit 10.1 to the Company's quarterly report on Form 10-Q for the quarter ended October 31, 2000, file number 1-6089, is incorporated herein by reference.
10.7 *	The Company's 1989 Stock Option Plan for Outside Directors, as amended September 12, 2001, filed as Exhibit 10.4 to the Company's quarterly report on Form 10-Q for the quarter ended October 31, 2001, file number 1-6089, is incorporated herein by reference.
10.8 *	The H&R Block Stock Plan for Non-Employee Directors, as amended August 1, 2001, filed as Exhibit 10.3 to the Company's quarterly report on Form 10-Q for the quarter ended October 31, 2001, file number 1-6089, is incorporated herein by reference.
10.9 *	The H&R Block, Inc. 2000 Employee Stock Purchase Plan, as amended August 1, 2001, filed as Exhibit 10.2 to the Company's quarterly report on Form 10-Q for the quarter ended October 31, 2001, file number 1-6089, is incorporated herein by reference.
10.10 *	The H&R Block, Inc. Executive Survivor Plan (as Amended and Restated) filed as Exhibit 10.4 to the Company's quarterly report on Form 10-Q for the quarter ended October 31, 2000, file number 1-6089, is incorporated herein by reference.
10.11 *	First Amendment to the H&R Block, Inc. Executive Survivor Plan (as Amended and Restated), filed as Exhibit 10.9 to the Company's annual report on Form 10-K for the fiscal year ended April 30, 2002, file number 1-6089, is incorporated by reference.

10.12 *	Second Amendment to the H&R Block, Inc. Executive Survivor Plan (as Amended and Restated), effective as of March 12, 2003, filed as Exhibit 10.12 to the company's annual report on Form 10-K for the fiscal year ended April 30, 2003, file number 1-6089, is incorporated herein by reference.
10.13 *	Employment Agreement dated July 16, 1998, between the Company and Mark A. Ernst, filed as Exhibit 10(a) to the Company's quarterly report on Form 10-Q for the quarter ended July 31, 1998, file number 1-6089, is incorporated herein by reference.
10.14 *	Amendment to Employment Agreement dated June 30, 2000, between HRB Management, Inc. and Mark A. Ernst, filed as Exhibit 10.1 to the Company's quarterly report on Form 10-Q for the quarter ended July 31, 2000, file number 1-6089, is incorporated herein by reference.
10.15 *	Employment Agreement dated September 7, 1999, between HRB Management, Inc. and Jeffery W. Yabuki, filed as Exhibit 10.4 to the Company's quarterly report on Form 10-Q for the quarter ended January 31, 2000, file number 1-6089, is incorporated herein by reference.
10.16 *	Employment Agreement dated as of February 2, 2004, between HRB Management, Inc. and Nicholas J. Spaeth.
10.17 *	Employment Agreement dated September 2, 2003, between HRB Management, Inc. and Brad C. Iversen, filed as Exhibit 10.1 to the Company's quarterly report on Form 10-Q for the quarter ended January 31, 2004, file number 1-6089, is incorporated herein by reference.
10.18 *	Employment Agreement between Option One Mortgage Corporation and Robert E. Dubrish, executed on February 9, 2002, filed as Exhibit 10.2 to the Company's quarterly report on Form 10-Q for the quarter ended January 31, 2002, file number 1-6089, is incorporated herein by reference.
10.19 *	Employment Agreement dated as of November 5, 2001, between H&R Block Financial Advisors, Inc. and Brian L. Nygaard, filed as Exhibit 10.4 to the Company's quarterly report on Form 10-Q for the quarter ended January 31, 2002, file number 1-6089, is incorporated herein by reference.
10.20 *	Employment Agreement dated December 2, 2002 between HRB Management, Inc. and Tammy S. Serati, filed as Exhibit 10.4 to the quarterly report on Form 10-Q for the quarter ended January 31, 2003, file number 1-6089, is incorporated herein by reference.
10.21 *	Employment Agreement dated as of April 1, 2003 between HRB Business Services, Inc. and Steven Tait, filed as Exhibit 10.23 to the annual report on Form 10-K for the fiscal year ended April 30, 2003, file number 1-6089, is incorporated herein by reference.
10.22 *	Separation Agreement dated September 4, 2003 between HRB Management, Inc. and Frank J. Cotroneo, filed as Exhibit 10.1 to the Company's quarterly report on Form 10-Q for the quarter ended October 31, 2003, file number 1-6089, is incorporated herein by reverence
10.23 *	Severance and Release Agreement dated February 2, 2004 between HRB Management, Inc. and James H. Ingraham.
10.24 *	Termination Agreement dated April 16, 2004 between HRB Management, Inc. and Jeffrey G. Brandmaier.
10.25	Second Amended and Restated Refund Anticipation Loan Operations Agreement dated as of June 9, 2003, between H&R Block Services, Inc., Household Tax Masters, Inc. and Beneficial Franchise Company, filed as Exhibit 10.27 to the annual report on Form 10-K for the fiscal year ended April 30, 2003, file number 1-6089, is incorporated herein by reference.
10.26	Third Amended and Restated Refund Anticipation Loan Participation Agreement dated as of January 1, 2004, between Block Financial Corporation and Household Tax Masters, Inc., filed as Exhibit 10.3 to the quarterly report on Form 10-Q for the quarter ended January 31, 2004, file number 1-6089, is incorporated herein by reference.
10.27	Agreement of Settlement dated March 31, 2003 by and between H&R Block, Inc., H&R Block and Associates L.P., H&R Block Tax Services, Inc., HRBO, Limited, H&R Block of South Texas, Inc., HRB-Delaware, Inc., H&R Block, Ltd., HRBOI, Ltd., HRBO III, Ltd., HRBOII, Inc., H&R Block of Dallas, Inc., H&R Block of Houston, Ltd., Houston Block, L.C., Block Management, Ltd., and STI-Block, L.C., and Ronnie and Nancy Haese, on behalf of themselves individually and on behalf of the Class as defined in such Agreement, filed as Exhibit 10.29 to the annual report on Form 10-K for the fiscal year ended April 30, 2003, file number 1-6089, is incorporated herein by reference.
10.28	Credit and Guarantee Agreement dated as of August 12, 2003 among Block Financial Corporation, H&R Block, Inc., The Royal Bank of Scotland PLC, Bank of America, N.A., JPMorgan Chase Bank, J.P. Morgan Securities, Inc. and other lending parties thereto, filed as Exhibit 10.3 to the quarterly report on Form 10-Q for the quarter ended July 31, 2003, file number 1-6089, is incorporated herein by reference.
10.29	Settlement Agreement dated January 8, 2004 between (a) Herbert Dicker; HBD, Inc.; Robert Hildorf; RKL, Inc.; Ray Jiruska; HRB, LLC; RLJ Enterprises, Inc.; DFJ Enterprises, Inc.; RRJ Enterprises, Inc.; DEJ Enterprises, Inc.; Moore Business Service, Inc.; T.J. Enterprises, Inc.; Block Mountain West, Inc.; Orr Enterprises Limited Partnership; S.E. Iowa Business Services, Inc.; Taxsavers, Inc.; and JBW Limited Partnership and (b) H&R Block, Inc.; Block Financial Corporation; HRB Royalty, Inc.; H&R Block Tax Services, Inc.; and H&R Block Eastern Tax Services, Inc., filed as Exhibit 10.2 to the quarterly report on Form 10-Q for the quarter ended January 31, 2004, file number 1-6089, is incorporated herein by reference.

** Indicates management contracts, compensatory plans or arrangements.*

SCHEDULE II – VALUATION AND QUALIFYING ACCOUNTS

YEARS ENDED APRIL 30, 2004, 2003 AND 2002

		Additions			
Description	Balance at **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					
2004	**$23,941,000**	**$53,663,000**	**—**	**$23,083,000**	**$54,521,000**
2003	$65,842,000	$49,748,000	—	$91,649,000	$23,941,000
2002	$48,817,000	$76,804,000	—	$59,779,000	$65,842,000

Report of Independent Registered Public Accounting Firm on Schedule

To the Board of Directors and Stockholders of H&R Block, Inc.:

Under date of June 9, 2004, we reported on the consolidated balance sheet of H&R Block, Inc. (the Company) as of April 30, 2004, and the related consolidated income statement, statement of cash flows and statement of stockholders' equity for the year then ended, which are included in the Company's annual report filed on Form 10-K. In connection with our audit of the aforementioned consolidated financial statements, we also audited the related financial statement schedule for the year ended April 30, 2004 included in the Form 10-K. In our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

The audit report on the consolidated financial statements of H&R Block, Inc. referred to above contains an explanatory paragraph stating that as discussed in Note 1 to the consolidated financial statements, the Company changed its method of accounting to adopt Staff Accounting Bulletin No. 105, "Application of Accounting Principles to Loan Commitments," Emerging Issues Task Force Issue No. 00-21, "Revenue Arrangements with Multiple Deliverables" and Statement of Financial Accounting Standards No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure" during the year ended April 30, 2004.

/s/ KPMG LLP

Kansas City, Missouri

June 9, 2004

Report of Independent Registered Public Accounting Firm on Financial Statement Schedule

To the Board of Directors of H&R Block, Inc.:

Our audits of the consolidated financial statements referred to in our report dated June 10, 2003 appearing in the 2004 Annual Report to Shareholders of H&R Block, Inc. also included an audit of the financial statement schedule listed in Item 15(a)(2) of this Form 10-K for the years ended April 30, 2003 and 2002. In our opinion, this financial statement schedule presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

/s/ PRICEWATERHOUSECOOPERS LLP

Kansas City, Missouri

June 10, 2003

Exhibit 3.3

AMENDED AND RESTATED BYLAWS OF H & R BLOCK, INC.

(As amended through June 9, 2004)

OFFICES

1. OFFICES. The corporation shall maintain a registered office in the State of Missouri, and shall have a resident agent in charge thereof. The location of the registered office and name of the resident agent shall be designated in the Articles of Incorporation, or by resolution of the board of directors, on file in the appropriate offices of the State of Missouri. The corporation may maintain offices at such other places within or without the State of Missouri as the board of directors shall designate.

SEAL

2. SEAL. The corporation shall have a corporate seal inscribed with the name of the corporation and the words "Corporate Seal - Missouri". The form of the seal may be altered at pleasure and shall be used by causing it or a facsimile thereof to be impressed, affixed, reproduced or otherwise used.

SHAREHOLDERS' MEETINGS

3. PLACE OF MEETINGS. All meetings of the shareholders shall be held at the principal office of the corporation in Missouri, except such meetings as the board of directors (to the extent permissible by law) expressly determines shall be held elsewhere, in which case such meetings may be held at such other place or places, within or without the State of Missouri, as the board of directors shall have determined.

4. ANNUAL MEETING. (a) Date And Time. The annual meeting of shareholders shall be held on the first Wednesday in September of each year, if not a legal holiday, and if a legal holiday, then on the first business day following, at 9:00 a.m., or on such other date as the board of directors may specify, when directors shall be elected and such other business transacted as may be properly brought before the meeting.

(b) Business Conducted. At an annual meeting of shareholders, only such business shall be conducted as shall have been properly brought before the meeting. To be properly brought before an annual meeting, business must be (i) specified in the notice of meeting (or any supplement thereto) given by or at the direction of the board, (ii) otherwise properly brought before the meeting by or at the direction of the board, or (iii) otherwise properly brought before the meeting by a shareholder who was a shareholder of record both at the time of giving of notice provided for in this section 4(b) and at the time of the meeting, who is entitled to vote at the meeting and who has complied with the notice and other requirements of this section 4(b).

For business to be properly brought before an annual meeting by a shareholder, the shareholder must have given timely notice of the business in writing to the secretary of the corporation and such business must be a proper subject for action by the corporation's shareholders under applicable law.

To be timely, a shareholder's notice must be received by the secretary at the principal executive offices of the corporation at least 45 days before the date in the year of the annual meeting corresponding to the date on which the corporation first mailed its proxy statements for the prior year's annual meeting of shareholders. Such notice shall set forth as to each matter the shareholder proposes to bring before the meeting

(i) a brief description of the business desired to be brought before the annual meeting;

(ii) the text of the proposal or business (including any proposed resolutions) and, if such business includes (to the extent, if any, permitted) a proposal to amend the Articles of Incorporation or the Bylaws, the language of the proposed amendment;

(iii) the reasons for conducting such business at the annual meeting;

(iv) any material interest of such shareholder (and of the beneficial owner, if any, on whose behalf the proposal is made) in such business; and

(v) as to the shareholder giving the notice and the beneficial owner, if any, on whose behalf the proposal is made (A) the name and address of the shareholder and beneficial owner, as they appear on the corporation's books, (B) the class and number of shares of stock of the corporation that are owned beneficially and of record by such shareholder and beneficial owner, (C) any other information with respect to such matter as would have been required to be included in a proxy statement filed pursuant to Regulation 14A under the Exchange Act then in effect, had proxies been solicited by the board of directors with respect thereto, (D) whether the shareholder or beneficial owner, if any, intends, or is part of a group that intends to deliver a proxy statement and/or form of proxy to holders of at least the percentage of the corporation's outstanding capital stock required to approve or adopt the proposal or otherwise solicit proxies from shareholders in support of such proposal, and (E) a representation that the shareholder (or a qualified representative of the shareholder) intends to appear in person at the meeting to propose such business.

Only such business shall be conducted at the annual meeting as has been brought before the meeting in accordance with the procedures set forth in this section 4(b). The chairman of an annual meeting shall determine whether any proposal to bring business before the meeting was made in accordance with the provisions of this section 4(b) and is a proper subject for shareholder action pursuant to this section 4(b) and applicable law, and if proposed business is not in compliance with this section 4(b) or not a proper subject for shareholder action, to declare that such defective proposal be disregarded and not transacted. The chairman of the annual meeting shall have sole authority to decide questions of compliance with the foregoing procedures, and his or her ruling shall be final. This provision shall not prevent the consideration and approval or disapproval at the meeting of reports of officers, directors and committees of the Board of Directors; provided that no new business shall be acted upon at the meeting in connection with such reports unless stated, submitted and received as herein provided.

Notwithstanding anything to the contrary in this section 4(b), (i) if the shareholder (or a qualified representative of the shareholder) does not appear at the meeting of shareholders to propose such business, such business shall not be transacted (notwithstanding that proxies in respect of such vote may have been received by the corporation), and (ii) a shareholder shall also comply with state law and the Exchange Act and the rules and regulations thereunder with respect to the matters set forth in this section 4(b). Nothing in this section 4(b) shall be deemed to affect any rights of shareholders to request inclusion of proposals in, or the corporation's right to omit proposals from, the corporation's proxy statement and form of proxy pursuant to Rule 14a-8 under the Exchange Act or any successor provision. The provisions of this Section 4(b) shall also govern what constitutes timely notice for purposes of Rule 14a4(c) (and any successor provision) under the Exchange Act.

5. SPECIAL MEETINGS. Special meetings of the shareholders may be called at any time by the chairman of the board, by the chief executive officer or by the president, or at any time upon the written request of a majority of the board of directors, or upon the written request of the holders of not less than 80% of the stock of the corporation entitled to vote in an election of directors. Each call for a special meeting of the shareholders shall state the time, the day, the place and the purpose or purposes of such meeting and shall be in writing, signed by the persons making the same and delivered to the secretary. No business shall be transacted at a special meeting other than such as is included in the purposes stated in the call.

6. CONDUCT OF ANNUAL AND SPECIAL MEETINGS. The chairman of the board, or in his absence the chief executive officer or the president, shall preside as the chairman of the meeting at all meetings of the shareholders. The chairman of the meeting shall be vested with the power and authority to (i) maintain control of and conduct an orderly meeting; (ii) exclude any shareholder from the meeting for failing or refusing to comply with any of the procedural standards or rules or conduct or any reasonable request of the chairman; and (iii) appoint inspectors of elections, prescribing their duties, and administer any oath that may be required under Missouri law. The ruling of the presiding officer on any matter shall be final and exclusive. The presiding officer shall establish the order of business and such rules and procedures for conducting the meeting as in his or her sole and complete discretion he or she determines necessary, appropriate or convenient under the circumstances, including (without limitation) (i) an agenda or order of business for the meeting, (ii) rules and procedures for maintaining order at the meeting and the safety of those present, (iii) limitations on participation in such meeting to shareholders of record of the corporation and their duly authorized and constituted proxies and such other persons as the presiding officer shall permit, (iv) restrictions on entry to the meeting after the time fixed for commencement thereof, (v) limitations on the time allotted to questions or comments by participants and (vi) regulation of the voting or balloting as applicable, including (without limitation) matters that are to be voted on by ballot, if any. Unless and to the extent determined by the Board of Directors or the presiding officer, meetings of shareholders shall not be required to be held in accordance with rules of parliamentary procedure.

7. NOTICES. Written or printed notice of each meeting of the shareholders, whether annual or special, stating the place, date and time thereof and in case of a special meeting, the purpose or purposes thereof shall be delivered or mailed to each shareholder entitled to vote thereat, not less than ten nor more than seventy days prior to the meeting, unless, as to a particular matter, other or further notice is required by law, in which case such other or

further notice shall be given. Any notice of a shareholders' meeting sent by mail shall be deemed to be delivered when deposited in the United States mail with postage prepaid thereon, addressed to the shareholder at his address as it appears on the books of the corporation.

8. WAIVER OF NOTICE. Whenever any notice is required to be given under the provisions of these bylaws, the Articles of Incorporation of the corporation, or of any law, a waiver thereof, if not expressly prohibited by law, in writing signed by the person or persons entitled to such notice, shall be deemed the equivalent to the giving of such notice.

9. QUORUM. Except as otherwise may be provided by law, by the Articles of Incorporation of the corporation or by these bylaws, the holders of a majority of the shares issued and outstanding and entitled to vote thereat, present in person or by proxy, shall be required for and shall constitute a quorum at all meetings of the shareholders for the transaction of business. Every decision of a majority in amount of shares of such quorum shall be valid as a corporate act, except in those specific instances in which a larger vote is required by law or by the Articles of Incorporation. If a quorum be not present at any meeting, the shareholders entitled to vote thereat, present in person or by proxy, shall have power to adjourn the meeting to a specified date not longer than 90 days after such adjournment without notice other than announcement at the meeting, until the requisite amount of voting shares shall be present. At such adjourned meeting at which the requisite amount of voting shares shall be represented any business may be transacted which might have been transacted at the meeting as originally notified.

10. PROXIES. At any meeting of the shareholders, every shareholder having the right to vote shall be entitled to vote in person or by proxy appointed by an instrument in writing subscribed by such shareholder and bearing a date not more than eleven months prior to said meeting unless said instrument provides that it shall be valid for a longer period.

11. VOTING. Each shareholder shall have one vote for each share of stock having voting power registered in his name on the books of the corporation and except where the transfer books of the corporation shall have been closed or a date shall have been fixed as a record date for the determination of its shareholders entitled to vote, no share of stock shall be voted at any election for directors which shall have been transferred on the books of the corporation within fifty days preceding such election of directors.

Shareholders shall have no right to vote cumulatively for the election of directors.

A shareholder holding stock in a fiduciary capacity shall be entitled to vote the shares so held, and a shareholder whose stock is pledged shall be entitled to vote unless, in the transfer by the pledgor on the books of the corporation, he shall have expressly empowered the pledgee to vote thereon, in which case only the pledgee or his proxy may represent said stock and vote thereon.

12. SHAREHOLDERS' LISTS. A complete list of the shareholders entitled to vote at every election of directors, arranged in alphabetical order, with the address of and the number of voting shares held by each shareholder, shall be prepared by the officer having charge of the stock books of the corporation and for at least ten days prior to the date of the election shall be open at the place where the election is to beheld, during the usual hours for business, to the examination of any shareholder and shall be produced and kept open at the

place of the election during the whole time thereof to the inspection of any shareholder present. The original or duplicate stock ledger shall be the only evidence as to who are shareholders entitled to examine such lists, or the books of the corporation, or to vote in person or by proxy, at such election. Failure to comply with the foregoing shall not affect the validity of any action taken at any such meeting.

13. RECORDS. The corporation shall maintain such books and records as shall be dictated by good business practice and by law. The books and records of the corporation may be kept at any one or more offices of the corporation within or without the State of Missouri, except that the original or duplicate stock ledger containing the names and addresses of the shareholders, and the number of shares held by them, shall be kept at the registered office of the corporation in Missouri. Every shareholder shall have a right to examine, in person, or by agent or attorney, at any reasonable time, for any reasonable purpose, the bylaws, stock register, books of account, and records of the proceedings of the shareholders and directors, and to make copies of or extracts from them.

DIRECTORS

14. NUMBER AND POWERS OF THE BOARD. The property and business of this corporation shall be managed by a board of directors, and the number of directors to constitute the board shall be not less than nine nor more than fifteen, the exact number to be fixed by a resolution adopted by the affirmative vote of a majority of the whole board of directors, but shall be twelve until and unless so fixed. Directors need not be shareholders. In addition to the powers and authorities by these bylaws expressly conferred upon the board of directors, the board may exercise all such powers of the corporation and do or cause to be done all such lawful acts and things as are not prohibited, or required to be exercised or done by the shareholders only.

15. INCUMBENCY OF DIRECTORS. (a) Election And Term Of Office. The directors of the corporation shall be divided into three classes: Class I, Class II and Class III. Membership in such classes shall be as nearly equal as possible and any increase or decrease in the number of directors shall be apportioned by the board of directors among the classes to maintain the number of directors in each class as nearly equal as possible. At each annual meeting of shareholders, directors shall be elected to succeed those whose terms then expire and to fill any vacancies and newly created directorships not previously filled by the board. Newly elected directors shall belong to the same class as the directors they succeed or, with respect to newly created directorships, to the respective classes to which such directorships are assigned by the board of directors. The term of office of each director shall begin immediately after his election and, except as set forth in the Articles of Incorporation as to the terms of office of the initial directors in each class, the directors in each class shall hold office until the third succeeding annual meeting of shareholders after the regular election of directors of that class or until their successors are elected and qualified and subject to prior death, resignation, retirement or removal from office of a director. No decrease in the number of directors constituting the board of directors shall reduce the term of any incumbent director.

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

16. VACANCIES. Any newly created directorship resulting from an increase in the number of directors, and any vacancy occurring on the board of directors through death, resignation, disqualification, disability or any other cause, may be filled by vote of a majority of the surviving or remaining directors then in office, although less than a quorum, or by a sole remaining director. Any director so elected to fill a vacancy shall hold office for the unexpired portion of the term of the director whose place shall be vacated and until the election and qualification of his successor.

17. MEETINGS OF THE NEWLY ELECTED BOARD OF DIRECTORS - NOTICE. The first meeting of each newly elected board, which shall be deemed the annual meeting of the board, shall be held on the same day as the annual meeting of shareholders, as soon thereafter as practicable, at such time and place, either within or without the State of Missouri, as shall be designated by the president. No notice of such meeting shall be necessary to the continuing or newly elected directors in order legally to constitute the meeting, provided that a majority of the whole board shall be present; or the members of the board may meet at such place and time as shall be fixed by the consent in writing of all of the directors.

18. NOTICE. (a) Regular Meetings. Regular meetings of the board of directors may be held without notice at such place or places, within or without the State of Missouri, and at such time or times, as the board of directors may from time to time fix by resolution adopted by the whole board. Any business may be transacted at a regular meeting.

(b) Special Meetings. Special meetings of the board of directors may be called by the chairman, the chief executive officer, the president or any two directors. Notice thereof stating the place, date and hour of the meeting shall be given to each director either by mail not less than 48 hours before the date of the meeting, by telephone or telegram on 24 hours' notice, or on such shorter notice as the person or persons calling such meeting may deem necessary or appropriate in the circumstances. The place may be within or without the State of Missouri as designated in the notice. The "call" and the "notice" of any such meeting shall be deemed synonymous.

19. QUORUM. At all meetings of the board of directors a majority of the whole board shall, unless a greater number as to any particular matter is required by statute, by the Articles of Incorporation or by these bylaws, constitute a quorum for the transaction of business, and the act of a majority of the directors present at any meeting at which there is a quorum shall be the act of the board of directors. Less than a quorum may adjourn the meeting successively until a quorum is present, and no notice of adjournment shall be required.

The foregoing provisions relating to a quorum for the transaction of business shall not be affected by the fact that one or more of the directors have or may have interests in any matter to come before a meeting of the board, which interests are or might be adverse to the interests of this corporation. Any such interested director or directors shall at all times be considered as present for the purpose of determining whether or not a quorum exists, provided such director or directors are in attendance and do not waive the right to vote.

20. NOMINATIONS FOR ELECTION AS DIRECTORS. Only persons who are nominated in accordance with the following procedures shall be eligible for election as

directors. Nominations of persons for election to the board of directors may be made at a meeting of shareholders (i) by or at the direction of the board of directors by any nominating committee or person appointed by the board or (ii) by any shareholder of the corporation entitled to vote for the election of directors at the meeting who complies with the notice procedures set forth in this section 20. Such nominations, other than those made by or at the direction of the board, shall be made pursuant to timely notice in writing to the secretary.

To be timely, a shareholder's notice shall be delivered to or mailed and received at the principal executive offices of the corporation not less than 45 days before the date in the year of the annual meeting corresponding to the date on which the corporation first mailed its proxy materials for the prior year's annual meeting of shareholders. Such shareholder's notice to the secretary shall set forth (a) as to each person whom the shareholder proposes to nominate for election or reelection as a director, such person's name, age, business address, residence address, and principal occupation or employment, the class and number of shares of capital stock of the corporation that are beneficially owned by such person, and any other information relating to such person that is required to be disclosed in solicitations for proxies for election of directors pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended; and (b) as to the shareholder giving the notice, such shareholder's name and record address and the class and number of shares of capital stock of the corporation that are beneficially owned by such shareholder. The corporation may require any proposed nominee to furnish such other information as may reasonably be required by the corporation to determine the eligibility of such proposed nominee to serve as a director of the corporation. No person shall be eligible for election as a director of the corporation unless nominated in accordance with the procedures set forth herein.

The chairman of the meeting shall, if the facts warrant, determine and declare to the meeting that a nomination was not made in accordance with the foregoing procedure, and if he should so determine, he shall so declare to the meeting and the defective nomination shall be disregarded.

21. DIRECTORS' ACTION WITHOUT MEETING. If all the directors severally or collectively consent in writing to any action to be taken by the directors, such consents shall have the same force and effect as a unanimous vote of the directors at a meeting duly held. The secretary shall file such consents with the minutes of the meetings of the board of directors.

22. WAIVER. Any notice provided or required to be given to the directors may be waived in writing by any of them, whether before, at, or after the time stated therein. Attendance of a director at any meeting shall constitute a waiver of notice of such meeting except where he attends for the express purpose of objecting to the transaction of any business thereat because the meeting is not lawfully called or convened.

23. INDEMNIFICATION OF DIRECTORS AND OFFICERS AND CONTRIBUTION. (a) Scope of Indemnification. The corporation shall indemnify any director, and may indemnify any officer, of the corporation who was or is a party or witness, or is threatened to be made a party or witness, to any threatened, pending or completed action, suit or proceeding (including, without limitation, an action, suit or proceeding by or in the right of the corporation), whether civil, criminal, administrative or investigative (including a grand jury proceeding), by reason of the fact that the person is or was (i) a director or officer of the corporation or (ii) serving at the request of the corporation, as a director, officer, employee,

agent, partner or trustee (or in any similar position) of another corporation, partnership, joint venture, trust, employee benefit plan or other enterprise, to the fullest extent authorized or permitted by the Missouri General and Business Corporation Law and any other applicable law, as the same exists or may hereinafter be amended (but, in the case of any such amendment, only to the extent that such amendment permits the corporation to provide broader indemnification rights than said law permitted the corporation to provide prior to such amendment), against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by the person in connection with such action, suit or proceeding, or in connection with any appeal thereof; provided, however, that, except as provided in section 23(b) with respect to proceedings to enforce rights to indemnification, the corporation shall indemnify any person in connection with an action, suit or proceeding (or part thereof) initiated by such person only if the initiation of such action, suit or proceeding (or part thereof) was authorized by the board of directors. Any right to indemnification hereunder shall include the right to payment by the corporation of expenses incurred in connection with any such action, suit or proceeding in advance of its final disposition; provided, however, that any payment of such expenses incurred by a director or officer in advance of the final disposition of such action, suit or proceeding shall be made only upon delivery to the corporation of an undertaking, by or on behalf of such director or officer, to repay all amounts so advanced unless it should be determined ultimately that such director or officer is entitled to be indemnified under this section or otherwise.

(b) Payment, Determination and Enforcement. Any indemnification or advancement of expenses required under this section shall be made promptly. If a determination by the corporation that a director is entitled to indemnification is required, and the corporation fails to make such determination within ninety days after final determination of an action, suit or proceeding, the corporation shall be deemed to have approved such request. If with respect to director indemnification the corporation denies indemnification or a written request for advancement of expenses, in whole or in part, or if payment in full pursuant to such determination or request is not made within thirty days, the right to indemnification and advancement of expenses as granted by this section shall be enforceable by the director in any court of competent jurisdiction. Such director's costs and expenses incurred in connection with successfully establishing the right to indemnification, in whole or in part, in any such action or proceeding shall also be indemnified by the corporation. It shall be a defense to any such action (other than an action brought to enforce a claim for the advancement of expenses pursuant to this section where the required undertaking has been received by the corporation) that the claimant has not met the applicable standard of conduct set forth in Sections 351.355.1 or 351.355.2 of the Missouri General and Business Corporation Law, but the burden of proving such defense shall be on the corporation. Neither the failure of the corporation (including the board of directors, independent legal counsel or the shareholders) to have made a determination prior to the commencement of such action that indemnification of the claimant is proper in the circumstances because the person has met the applicable standard of conduct set forth in the Missouri General and Business Corporation Law, nor the fact that there has been an actual determination by the corporation (including the board of directors, independent legal counsel or the shareholders) that the claimant has not met such applicable standard of conduct, shall be a defense to the action or create a presumption that the claimant has not met the applicable standard of conduct.

(c) Nonexclusivity, Duration and Indemnification Agreements. The indemnification and advancement of expenses provided by, or granted pursuant to, this section shall not be deemed exclusive of any other rights to which those seeking indemnification or advancement of expenses may be entitled either under the Articles of Incorporation or any other bylaw, agreement, vote of shareholders or disinterested directors or otherwise, both as to action in the person's official capacity and as to action in another capacity while holding such office, and shall continue as to a person who has ceased to be a director or officer, and shall inure to the benefit of the heirs, executors and administrators of such person. Any repeal or modification of the provisions of this section 23 shall not affect any obligations of the corporation or any rights regarding indemnification and advancement of expenses of a director or officer with respect to any threatened, pending or completed action, suit or proceeding in which the alleged cause of action accrued at any time prior to such repeal or modification. Upon approval of a majority of a quorum of disinterested directors, the corporation may enter into indemnification agreements with officers and directors of the corporation, or extend indemnification to officers, employees or agents of the corporation, upon such terms and conditions as may be deemed appropriate.

(d) Insurance. The corporation may purchase and maintain insurance, at its expense, to protect itself and any person who is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee, agent, partner or trustee of another corporation, partnership, joint venture, trust, employment benefit plan or other enterprise against any liability asserted against the person and incurred by the person in any such capacity, or arising out of his or her status as such, whether or not the corporation would have the power to indemnify the person against such liability under the provisions of this section, the Missouri General and Business Corporation Law or otherwise.

(e) Severability. If this section or any portion thereof shall be invalidated on any ground by any court of competent jurisdiction, then the corporation shall nevertheless indemnify each director of the corporation as to expenses (including attorneys' fees), judgments, fines and amounts paid in settlement with respect to any action, suit or proceeding, whether civil, criminal, administrative or investigative, including (without limitation) a grand jury proceeding and an action, suit or proceeding by or in the right of the corporation, to the fullest extent authorized or permitted by any applicable portion of this section that shall not have been invalidated by the Missouri General and Business Corporation Law or by any other applicable law.

(f) Contribution. In order to provide for just and equitable contribution in circumstances in which the indemnification provided for in this section is held by a court of competent jurisdiction to be unavailable in whole or part to a director, the corporation shall contribute to the payment of the indemnitee's losses that would have been so indemnified in an amount that is just and equitable in the circumstances, taking into account, among other things, contributions by other directors of the corporation pursuant to indemnification agreements or otherwise. In the absence of personal enrichment of indemnitee, or acts of intentional fraud or dishonest or criminal conduct on the part of indemnitee, it would not be just and equitable for indemnitee to contribute to the payment of losses arising out of an action, suit or proceeding in an amount greater than: (i) in a case where indemnitee is a director of the corporation or any of its subsidiaries but not an officer of either, the amount of fees paid to indemnitee for serving as a director during the 12 months preceding the commencement of such action, suit or proceeding, or (ii) in a case where indemnitee is a

director of the corporation or any of its subsidiaries and is an officer of either, the amount set forth in clause (i) plus 5 percent of the aggregate cash compensation paid to indemnitee for serving as such officer(s) during the 12 months preceding the commencement of such action, suit or proceeding. The corporation shall contribute to the payment of losses covered hereby to the extent not payable by the indemnitee pursuant to the contribution provisions set forth in the preceding sentence.

24. INTERESTS OF DIRECTORS. In case the corporation enters into contracts or transacts business with one or more of its directors, or with any firm of which one or more of its directors are members or with any other corporation or association of which one or more of its directors are members, shareholders, directors or officers, such transaction or transactions shall not be invalidated or in any way affected by the fact that such director or directors have or may have interests therein which are or might be adverse to the interests of this corporation; provided that such contract or transaction is entered into in good faith and authorized or ratified on behalf of this corporation by the board of directors or by a person or persons (other than the contracting person) having authority to do so, and if the directors or other person or persons so authorizing or ratifying shall then be aware of the interest of such contracting person. In any case in which any transaction described in this section 24 is under consideration by the board of directors, the board may, upon the affirmative vote of a majority of the whole board, exclude from its presence while its deliberations with respect to such transaction are in progress any director deemed by such majority to have an interest in such transaction.

25. COMMITTEES. (a) Executive Committee. The board of directors may, by resolution or resolutions passed by a majority of the whole board, designate an executive committee, such committee to consist of two or more directors of the corporation, which committee, to the extent provided in said resolution or resolutions, shall have and may exercise all of the authority of the board of directors in the management of the corporation. The executive committee shall keep regular minutes of its proceedings and the same shall be recorded in the minute book of the corporation. The secretary or an assistant secretary of the corporation may act as secretary for the committee if the committee so requests.

(b) Audit Committee. The corporation shall maintain an audit committee consisting of at least three directors. No member of the audit committee shall be an employee of the corporation, and each member of the audit committee shall be independent pursuant to standards promulgated by the Securities Exchange Commission and the New York Stock Exchange. The audit committee shall be responsible for assisting the board of directors regarding (i) the integrity of the corporation's financial statements, (ii) the corporation's compliance with legal and regulatory requirements, (iii) the independent auditor's qualifications and independence and (iv) the performance of the corporation's internal audit function and independent auditor. The audit committee shall have sole responsibility for appointing, retaining, discharging or replacing the corporation's independent auditor and, following completion of the independent auditor's examination of the corporation's consolidated financial statements, review with the independent auditor and corporation management, such matters in connection with the audit as deemed necessary and desirable by the audit committee. The audit committee shall have such additional duties, responsibilities, functions and powers as may be delegated to it by the board of directors of the corporation. The audit committee shall be empowered to retain, at the expense of the corporation, independent expert(s) if it deems this to be necessary.

(c) Other Committees. The board of directors may also, by resolution or resolutions passed by a majority of the whole board, designate other committees, with such persons, powers and duties as it deems appropriate and as are not inconsistent with law.

26. COMPENSATION OF DIRECTORS AND COMMITTEE MEMBERS. By resolution duly adopted by a majority of the board of directors, directors and members shall be entitled to receive reasonable annual compensation for services rendered to the corporation as such, and a fixed sum and expenses of attendance, if any, may be allowed for attendance at each regular or special meeting of the board or committee; provided that nothing herein contained shall be construed to preclude any director or committee member from serving the corporation in any other capacity and receiving compensation therefor.

27. OFFICERS. (a) Elected Officers. The following officers of the corporation shall be chosen or appointed by election by the board of directors, and shall be deemed elected officers: a president, a secretary, and a treasurer; also, if the board desires, a chairman of the board, a vice chairman of the board, a chief executive officer, one or more vice presidents, one or more assistant secretaries and one or more assistant treasurers. The chairman of the board, the vice chairman of the board and the chief executive officer shall be deemed executive officers of the corporation, and shall be vested with such powers, duties, and authority as the board of directors may from time to time determine and as may be set forth in these bylaws.

Any two or more of such offices may be held by the same person, except the offices of chairman of the board and vice chairman of the board, president and vice president, and the offices of president and secretary.

An elected officer shall be deemed qualified when he enters upon the duties of the office to which he has been elected and furnishes any bond required by the board; but the board may also require of such person his written acceptance and promise faithfully to discharge the duties of such office.

(b) Election Of Officers. The board of directors at each annual meeting thereof shall elect a president from among their own number. They shall also elect at such time a secretary and a treasurer, who need not be directors. The board then, or from time to time, may elect a chairman of the board, a vice chairman of the board, a chief executive officer and such vice presidents, assistant secretaries and assistant treasurers as it may deem advisable or necessary.

(c) Term Of Office. Each elected officer of the corporation shall hold his office for the term for which he was elected, or until he resigns or is removed by the board, whichever first occurs.

(d) Appointment Of Officers And Agents - Terms of Office. The board from time to time may also appoint such other officers and agents for the corporation as it shall deem necessary or advisable. All appointed officers and agents shall hold their respective positions at the pleasure of the board or for such terms as the board may specify, and they shall exercise such powers and perform such duties as shall be determined from time to time by the board, or by an elected officer empowered by the board to make such determinations.

28. REMOVAL. Any officer or agent elected or appointed by the board of directors, and any employee, may be removed or discharged by the board whenever in its judgment the best interests of the corporation would be served thereby, but such removal shall be without a prejudice to the contract rights, if any, of the person so removed.

29. SALARIES AND COMPENSATION. Salaries and compensation of all elected officers of the corporation shall be fixed, increased or decreased by the board of directors, but this power, except as to the salary or compensation of the chairman of the board, the vice chairman of the board, the chief executive officer and the president, may, unless prohibited by law, be delegated by the board to the chairman of the board, the vice chairman of the board, the chief executive officer, the president or a committee. Salaries and compensation of all other appointed officers, agents, and employees of the corporation may be fixed, increased or decreased by the board of directors, but until action is taken with respect thereto by the board of directors, the same may be fixed, increased or decreased by the chairman of the board, by the chief executive officer, by the president or by such other officer or officers as may be empowered by the board of directors to do so.

30. DELEGATION OF AUTHORITY TO HIRE, DISCHARGE, ETC. The board from time to time may delegate to the chairman of the board, the vice chairman of the board, the chief executive officer, the president or other officer or executive employee of the corporation, authority to hire, discharge, and fix and modify the duties, salary or other compensation of employees of the corporation under their jurisdiction, and the board may delegate to such officer or executive employee similar authority with respect to obtaining and retaining for the corporation the services of attorneys, accountants and other experts.

31. THE CHAIRMAN OF THE BOARD, THE VICE CHAIRMAN OF THE BOARD, THE CHIEF EXECUTIVE OFFICER AND THE PRESIDENT. The chairman of the board or the president shall be elected by the board of directors to be the chief executive officer of the corporation, or the board of directors may elect a chief executive officer who is not the chairman of the board or the president, and the chief executive officer shall have general and active management of the business of the corporation and shall carry into effect all directions and resolutions of the board. The chairman of the board, the vice chairman of the board, the chief executive officer and the president shall be vested with such powers, duties, and authority as the board of directors may from time to time determine and as may be set forth in these bylaws. Except as otherwise provided for in these bylaws, the chairman of the board, or in his absence, the chief executive officer or president, shall preside at all meetings of the shareholders of the corporation and at all meetings of the board of directors.

The chairman of the board, vice chairman of the board, the chief executive officer or president may execute all bonds, notes, debentures, mortgages, and other contracts requiring a seal, under the seal of the corporation and may cause the seal to be affixed thereto, and all other instruments for and in the name of the corporation, except that if by law such instruments are required to be executed only by the president, he shall execute them.

The chairman of the board, vice chairman of the board, chief executive officer or president, when authorized so to do by the board, may execute powers of attorney from, for, and in the name of the corporation, to such proper person or persons as he may deem fit, in order that thereby the business of the corporation may be furthered or action taken as may be deemed by him necessary or advisable in furtherance of the interests of the corporation.

The chairman of the board, vice chairman of the board, chief executive officer or president, except as may be otherwise directed by the board, shall attend meetings of shareholders of other corporations to represent this corporation thereat and to vote or take action with respect to the shares of any such corporation owned by this corporation in such manner as he shall deem to be for the interests of the corporation or as may be directed by the board.

The chairman of the board, vice chairman of the board, chief executive officer or president shall have such other or further duties and authority as may be prescribed elsewhere in these bylaws or from time to time by the board of directors.

32. VICE PRESIDENTS. The vice presidents in the order of their seniority shall, in the absence, disability or inability to act of the chairman of the board, the vice chairman of the board, the chief executive officer and the president, perform the duties and exercise the powers of the chairman of the board, the vice chairman of the board, the chief executive officer and the president, and shall perform such other duties as the board of directors shall from time to time prescribe.

33. THE SECRETARY AND ASSISTANT SECRETARIES. The secretary shall attend all sessions of the board and except as otherwise provided for in these bylaws, all meetings of the shareholders, and shall record or cause to be recorded all votes taken and the minutes of all proceedings in a minute book of the corporation to be kept for that purpose. He shall perform like duties for the executive and other standing committees when requested by the board or such committee to do so.

His shall be the principal responsibility to give, or cause to be given, notice of all meetings of the shareholders and of the board of directors, but this shall not lessen the authority of others to give such notice as is authorized elsewhere in these bylaws.

He shall see that all books, records, lists and information, or duplicates, required to be maintained at the registered or home office of the corporation in Missouri, or elsewhere, are so maintained.

He shall keep in safe custody the seal of the corporation, and when duly authorized to do so shall affix the same to any instrument requiring it, and when so affixed, he shall attest the same by his signature.

He shall perform such other duties and have such other authority as may be prescribed elsewhere in these bylaws or from time to time by the board of directors, the chairman of the board or the president, under whose direct supervision he shall be.

He shall have the general duties, powers and responsibilities of a secretary of a corporation.

The assistant secretaries, in the order of their seniority, in the absence, disability or inability to act of the secretary, shall perform the duties and exercise the powers of the secretary, and shall perform such other duties as the board may from time to time prescribe.

34. THE TREASURER AND ASSISTANT TREASURERS. The treasurer shall have the responsibility for the safekeeping of the funds and securities of the corporation, and shall

keep or cause to be kept, full and accurate accounts of receipts and disbursements in books belonging to the corporation. He shall keep, or cause to be kept, all other books of account and accounting records of the corporation, and shall deposit or cause to be deposited all monies and other valuable effects in the name and to the credit of the corporation in such depositories as may be designated by the board of directors.

He shall disburse, or permit to be disbursed, the funds of the corporation as may be ordered, or authorized generally, by the board, and shall render to the chief executive officers of the corporation and the directors whenever they may require it, an account of all his transactions as treasurer and of those under his jurisdiction, and of the financial condition of the corporation.

He shall perform such other duties and shall have such other responsibility and authority as may be prescribed elsewhere in these bylaws or from time to time by the board of directors.

He shall have the general duties, powers and responsibility of a treasurer of a corporation, and shall be the chief financial and accounting officer of the corporation.

The assistant treasurers in the order of their seniority shall, in the absence, disability or inability to act of the treasurer, perform the duties and exercise the powers of the treasurer, and shall perform such other duties as the board of directors shall from time to time prescribe.

35. DUTIES OF OFFICERS MAY BE DELEGATED. If any officer of the corporation be absent or unable to act, or for any other reason that the board may deem sufficient, the board may delegate, for the time being, some or all of the functions, duties, powers and responsibilities of any officer to any other officer, or to any other agent or employee of the corporation or other responsible person, provided a majority of the whole board concurs therein.

SHARES OF STOCK

36. CERTIFICATES OF STOCK. The certificates for shares of stock of the corporation shall be numbered, shall be in such form as may be prescribed by the board of directors in conformity with law, and shall be entered into the stock books of the corporation as they are issued, and such entries shall show the name and address of the person, firm, partnership, corporation or association to whom each certificate is issued. Each certificate shall have printed, typed or written thereon the name of the person, firm, partnership, corporation or association to whom it is issued, and number of shares represented thereby and shall be signed by the president or a vice president, and the treasurer or an assistant treasurer or the secretary or an assistant secretary of the corporation, and sealed with the seal of the corporation, which seal may be facsimile, engraved or printed. If the corporation has a registrar, a transfer agent, or a transfer clerk who actually signs such certificates, the signatures of any of the other officers above mentioned may be facsimile, engraved or printed. In case any such officer who has signed or whose facsimile signature has been placed upon any such certificate shall have ceased to be such officer before such certificate is issued, such certificate may nevertheless be issued by the corporation with the same effect as if such officer were an officer at the date of its issue.

37. TRANSFERS OF SHARES - TRANSFER AGENT - REGISTRAR. Transfers of shares of stock shall be made on the books of the corporation only by the person named in the stock certificate or by his attorney lawfully constituted in writing, and upon surrender of the certificate therefor. The stock record books and other transfer records shall be in the possession of the secretary or of a transfer agent or clerk of the corporation. The corporation by resolution of the board may from time to time appoint a transfer agent and if desired a registrar, under such arrangements and upon such terms and conditions as the board of directors deems advisable; but until and unless the board appoints some other person, firm, or corporation as its transfer agent (and upon the revocation of any such appointment, thereafter until a new appointment is similarly made) the secretary shall be the transfer agent or clerk of the corporation, without the necessity of any formal action of the board of directors and the secretary shall perform all of the duties thereof.

38. LOST CERTIFICATE. In the case of the loss or destruction of any outstanding certificate for shares of stock of the corporation, the corporation may issue a duplicate certificate (plainly marked "duplicate"), in its place, provided the registered owner thereof or his legal representatives furnish due proof of loss thereof by affidavit, and (if required by the board of directors, in its discretion) furnish a bond in such amount and form and with such surety as may be prescribed by the board. In addition, the board of directors may make any other requirements which it deems advisable.

39. CLOSING OF TRANSFER BOOKS. The board of directors shall have power to close the stock transfer books of the corporation for a period not exceeding fifty days preceding the date of any meeting of the shareholders, or the date for payment of any dividend, or the date for the allotment of rights, or any effective date or change or conversion or exchange of capital stock; provided, however, that in lieu of closing the stock transfer books as aforesaid, the board of directors may fix in advance a date, not exceeding fifty days preceding the effective date of any of the above enumerated transactions, as a record date; and in either case such shareholders and only such shareholders as shall be shareholders of record on the date of closing the transfer books, or on the record date so fixed, shall be entitled to receive notice of any such transaction or to participate in any such transactions notwithstanding any transfer of any share on the books of the corporation after the date of closing the transfer books or such record date so fixed.

GENERAL

40. DIVIDENDS. Dividends upon the shares of stock of the corporation, subject to any applicable provisions of the Articles of Incorporation and of any applicable laws or statutes may be declared by the board of directors at any regular or special meeting. Dividends may be paid in cash, in property or in shares of its stock and to the extent and in the manner provided by law out of any available earned surplus or earnings of the corporation. Liquidating dividends or dividends representing a distribution of paid-in surplus or a return of capital shall be made only when and in the manner permitted by law.

41. CREATION OF RESERVES. Before the payment of any dividends, there may be set aside out of any funds of the corporation available for dividends such sum or sums as the board of directors from time to time, in their absolute discretion, think proper as a reserve fund or funds, to meet contingencies, or for equalizing dividends, or for repairing, or maintaining any property of the corporation, or for such other purposes as the board of

directors shall think conducive to the interests of the corporation, and the board of directors may abolish any such reserve in the manner in which it was created.

42. FIXING OF CAPITAL, TRANSFERS OF SURPLUS. Except as may be specifically otherwise provided in the Articles of Incorporation, the board of directors is expressly empowered to exercise all authority conferred upon it or the corporation by any law or statute, and in conformity therewith, relative to:

(i) The determination of what part of the consideration received for shares of the corporation shall be capital;

(ii) Increasing or reducing capital;

(iii) Transferring surplus to capital or capital to surplus;

(iv) Allocating capital to shares of a particular class of stock;

(v) The consideration to be received by the corporation for its shares; and

(vi) All similar or related matters;

provided that any concurrent action or consent by or of the corporation and its shareholders required to be taken or given pursuant to law, shall be duly taken or given in connection therewith.

43. CHECKS, NOTES AND MORTGAGES. All checks, drafts, or other instruments for the payment, disbursement, or transfer of monies or funds of the corporation may be signed in its behalf by the treasurer of the corporation, unless otherwise provided by the board of directors. All notes of the corporation and any mortgages or other forms of security given to secure the payment of the same may be signed by the president who may cause to be affixed the corporate seal attested by the secretary or assistant secretary. The board of directors by resolution adopted by a majority of the whole board from time to time may authorize any officer or officers or other responsible person or persons to execute any of the foregoing instruments for and in behalf of the corporation.

44. FISCAL YEAR. The board of directors may fix and from time to time change the fiscal year of the corporation. In the absence of action by the board of directors, the fiscal year shall end each year on the same date which the officers of the corporation elect for the close of its first fiscal period.

45. TRANSACTIONS WITH RELATED PERSONS. The affirmative vote of not less than 80% of the outstanding shares of the corporation entitled to vote in an election of directors shall be required for the approval or authorization of any business transaction with a related person as set forth in the Articles of Incorporation in the manner provided therein.

46. DIRECTOR'S DUTIES; CONSIDERATION OF TENDER OFFERS. The board of directors shall have broad discretion and authority in considering and evaluating tender offers for the stock of this corporation. Directors shall not be liable for breach of their fiduciary duty to the shareholders merely because the board votes to accept an offer that is not the highest price per share, provided, that the directors act in good faith in considering

collateral nonprice factors and the impact on constituencies other than the shareholders (i.e., effect on employees, corporate existence, corporate creditors, the community, etc.) and do not act in willful disregard of their duties to the shareholders or with a purpose, direct or indirect, to perpetuate themselves in office as directors of the corporation.

47. AMENDMENT OF BYLAWS. (a) By Directors. The board of directors may make, alter, amend, change, add to or repeal these bylaws, or any provision thereof, at any time.

(b) By Shareholders. These bylaws may be amended, modified, altered, or repealed by the shareholders, in whole or in part, only at the annual meeting of shareholders or at the special meeting of shareholders called for such purpose, only upon the affirmative vote of the holders of not less than 80% of the outstanding shares of stock of this corporation entitled to vote generally in the election of directors, provided that an affirmative vote of a majority of the votes entitled to be cast shall be sufficient to approve any such amendment, modification, alteration or repeal that has been adopted by a vote of 80% of the members of the board of directors.

Exhibit 10.16

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT ("Agreement") is entered into as of February 2, 2004, by and between HRB Management, Inc., a Missouri corporation (the "Company"), and Nicholas J. Spaeth ("Executive").

ARTICLE ONE

EMPLOYMENT

1.01 - Agreement as to Employment. Effective February 2, 2004 (the "Employment Date"), the Company hereby employs Executive to serve in the capacity set forth in Section 1.02, and Executive hereby accepts such employment by the Company, subject to the terms of this Agreement. The Company reserves the right, in its sole discretion, to change the title of Executive at any time.

1.02 - Duties.

(a) Executive is employed by the Company to serve as its Senior Vice President, Chief Legal Officer, subject to the authority and direction of the Board of Directors of the Company and the Chief Executive Officer of H&R Block, Inc. Subject to the foregoing, Executive will have such authority and responsibility and duties as stated in the job description for the position of Senior Vice President, Chief Legal Officer, which has been provided to Executive on or before the Employment Date. The Company reserves the right to modify, delete, add, or otherwise change Executive's job responsibilities and job description, in its sole discretion, at any time. Executive will perform such other duties, which may be beyond the scope of the job description, as are assigned to Executive from time to time.

(b) So long as Executive is employed under this Agreement, Executive agrees to devote Executive's full business time and efforts exclusively on behalf of the Company and to competently and diligently discharge Executive's duties hereunder. Executive will not be prohibited from engaging in such personal, charitable, or other nonemployment activities that do not interfere with Executive's full-time employment hereunder and that do not violate the other provisions of this Agreement or the H&R Block, Inc. Code of Business Ethics & Conduct, which Executive acknowledges having read and understood. Executive will comply fully with all reasonable policies of the Company as are from time to time in effect and applicable to Executive's position. Executive understands that the business of H&R Block, Inc. ("Block"), the Company, and/or any other direct or indirect subsidiary of Block (each such other subsidiary an "Affiliate") may be subject to governmental regulation, some of which may require Executive to submit to background investigation as a condition of Block, the Company, and/or Affiliates' participation in certain activities subject to such regulation. If Executive, Block, the Company, or Affiliates are unable to participate, in whole or in part, in any such activity as the result of any action or inaction on the part of Executive, then this Agreement and Executive's employment hereunder may be terminated by the Company without notice.

1.03 - Compensation.

(a) Base Salary. The Company will pay to Executive a gross salary at an annual rate of $400,000 ("Base Salary"), payable semimonthly or at any other pay periods as the Company may use for its other executive-level employees. The Base Salary will be reviewed for adjustment no less often than annually during the term of Executive's employment hereunder and, if adjusted, such adjusted amount will become the "Base Salary" for purposes of this Agreement.

(b) Short-Term Incentive Compensation. Executive shall participate in the H&R Block Short-Term Incentive Plan and the discretionary short-term incentive program. Under such Plan and program, Executive shall have an aggregate target bonus for fiscal year 2004 of $240,000 and an opportunity to earn 200% of such target bonus. The payment of the actual award under such Plan and program shall be based upon such performance criteria that shall be determined by the Compensation Committee of the Board of Directors of Block (the "Compensation Committee"). Under such Plan and program, for fiscal year 2004 only, Executive will receive a guaranteed payment of $300,000 to be paid following the completion of fiscal year 2004 when the same is paid to other senior executives of the Company.

(c) Stock Options. As approved by the Compensation Committee and the Board of Directors of Block itself, Executive shall be granted on the Employment Date a stock option under the H&R Block 2003 Long-Term Executive Compensation Plan (the "2003 Plan"), to purchase 200,000 shares of Block's common stock at an option price per share equal to its closing price on the New York Stock Exchange on the date of grant, such option to expire on the tenth anniversary of the date of grant; to vest and become exercisable as to one-third (66,666) of the shares covered thereby on the first anniversary of the date of grant, as to an additional one-third (66,667) of such shares covered thereby on the second anniversary of the date of grant, and as to the remaining one-third (66,667) of the shares on the third anniversary of the date of grant; to be an incentive stock option for the maximum number of shares permitted by the Internal Revenue Code Section 422 and the regulations promulgated thereunder; and to otherwise be a nonqualified stock option. Notwithstanding any provision to the contrary in the H&R Block Severance Plan (the "Severance Plan"), the option granted to Executive pursuant to this Section 1.03(c) shall vest on Executive's last day of employment by the Company or any Affiliate (the "Last Day of Employment") upon the occurrence of a "Qualifying Termination" (as such term is defined in the Severance Plan). Any and all other stock options granted to Executive during the term of his employment with the Company and/or any Affiliate shall upon the occurrence of a Qualifying Termination vest in accordance with the terms of the Severance Plan as elected by Executive pursuant to Section 1.07 (d) of this Agreement.

(d) Restricted Stock. As approved by the Compensation Committee and the Board of Directors of Block itself, Executive shall be awarded promptly after the Employment Date, 20,000 restricted shares of Block's common stock ("Restricted Shares") under the 2003 Plan. The Restricted Shares shall vest (i.e., the restrictions on such shares shall terminate) as follows: one-third (6,666 whole shares) on the second anniversary of the Employment Date; an additional one-third (6,667 whole shares) on the third anniversary of the Employment Date; and the remaining one-third (6,667 whole shares) on the fourth anniversary of the Employment Date. Prior to the time such Restricted Shares are so vested, (i) such Restricted Shares shall be nontransferable and (ii)

Executive shall be entitled to receive any cash dividends payable with respect to unvested Restricted Shares and vote such unvested Restricted Shares at any meeting of shareholders of Block. Notwithstanding any provision to the contrary in the Severance Plan, the Restricted Shares awarded to Executive pursuant to this Section 1.03(d) shall vest on Executive's Last Day of Employment upon the occurrence of a Qualifying Termination. Any and all other awards of Restricted Shares awarded to Executive during the term of his employment with the Company and/or any Affiliate shall upon the occurrence of a Qualifying Termination vest in accordance with the terms of the Severance Plan as elected by Executive pursuant to Section 1.07 (d) of this Agreement.

1.04 - Relocation Benefits.

(a) The Company will reimburse Executive for reasonable packing, shipping, transportation costs and other expenses incurred by Executive in relocating Executive's personal property to the Greater Kansas City Area, in accordance with the H&R Block Executive Relocation Program; provided, however, that the amount of such reimbursement (prior to taking into account the provisions of Section 1.04 (b) of this Agreement) shall not exceed $5,000.

(b) To the extent that Executive incurs taxable income related to any relocation benefits paid pursuant to this Agreement, the Company will pay to Executive such additional amount as is necessary to "gross up" such benefits and cover the anticipated income tax liability resulting from such taxable income.

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

1.06 - Fringe Benefits. During the term of Executive's employment hereunder, and subject to the discretionary authority given to the applicable benefit plan administrators, the Company will make available to Executive such insurance, sick leave, deferred compensation, short-term incentive compensation, bonuses, stock options, retirement, vacation, and other like benefits as are approved and provided from time to time to the other executive-level employees of the Company or Affiliates. In connection with Executive's participation in the H&R Block Executive Survivor Plan (the "ESP"), Executive shall be eligible to participate in the ESP on the earliest date following the Employment Date on which the insurance carrier under the ESP approves Executive's coverage under the ESP and completes such administrative procedures as are necessary to enroll Executive in the ESP.

1.07 - Termination of Employment.

(a) Without Notice. The Company may, at any time, in its sole discretion, terminate this Agreement and the employment of Executive without notice in the event of:

(i) Executive's misconduct that interferes with or prejudices the proper

conduct of the business of Block, the Company or any Affiliate or which may reasonably result in harm to the reputation of Block, the Company and/or any Affiliate; or

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

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

(iv) Executive's violation of Article Two or Three of this Agreement; or

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

(vi) Executive's disobedience, insubordination or failure to discharge Executive's duties; or

(vii) Executive's suspension by the Internal Revenue Service from participation in the Electronic Filing Program; or

(viii) The inability of Executive, Block, the Company, and/or an Affiliate to participate, in whole or in part, in any activity subject to governmental regulation as the result of any action or inaction on the part of Executive, as described in Section 1.02(b); or

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

(b) With Notice. Either party may terminate this Agreement for any reason, or no reason, by providing not less than 45 days' prior written notice of such termination to the other party, and, if such notice is properly given, this Agreement and Executive's employment hereunder will terminate as of the close of business on the 45th day after such notice is deemed to have been given or such later date as is specified in such notice.

(c) Termination Due to a Change of Control.

(i) If Executive terminates Executive's employment under this Agreement during the 180-day period following the date of the occurrence of a "Change of Control" of Block then, upon any such termination of Executive's employment and conditioned on Executive's execution of an agreement with the Company under which Executive releases all known and potential claims against Block, the Company, and Affiliates, the Company will provide Executive with Executive's election (the "Change of Control Election") of the same level of severance compensation and benefits as would be provided under the

Severance Plan as the Severance Plan exists either (A) on the date of this Agreement or (B) on Executive's Last Day of Employment, as if Executive had incurred a Qualifying Termination. The Severance Plan as it exists on the date of this Agreement is attached hereto as Exhibit A. Executive must notify the Company in writing within 5 business days after Executive's Last Day of Employment of Executive's Change of Control Election. Severance compensation and benefits provided under this Section 1.07(c) will terminate immediately if Executive violates Sections 3.02, 3.03, or 3.05 of this Agreement or becomes reemployed with the Company or an Affiliate.

(ii) For the purpose of this subsection, a "Change of Control" means:

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

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

(C) the completion of a reorganization, merger or consolidation approved by the shareholders of Block, in each case, with respect to which all or substantially all of the individuals and entities who were the respective beneficial owners of the voting securities of Block immediately prior to such reorganization, merger or consolidation do not, following such reorganization, merger or consolidation, beneficially own, directly or indirectly, more than 50% of the then outstanding voting securities entitled to vote generally in the election of directors of

the corporation resulting from such reorganization, merger or consolidation, or a complete liquidation or dissolution of Block, as approved by the shareholders of Block, or the sale or other disposition of all or substantially all of the assets of Block, as approved by the shareholders of Block.

(d) Severance. Executive will receive severance compensation and benefits as would be provided under the Severance Plan, as the same may be amended from time to time, if Executive incurs a "Qualifying Termination," as such term is defined in the Severance Plan (and without regard to whether the termination is with or without notice under this Agreement), and executes an agreement with the Company under which Executive releases all known and potential claims against Block, the Company, and Affiliates. Such compensation and benefits will be Executive's election (the "Severance Election") of the same level of severance compensation and benefits as would be provided under the Severance Plan as such plan exists either (A) on the date of this Agreement or (B) Executive's Last Day of Employment. The Severance Plan as it exists on the date of this Agreement is attached hereto as Exhibit A. Executive must notify the Company in writing within 5 business days after Executive's Last Day of Employment of Executive's Severance Election. Severance compensation and benefits provided under this Section 1.07(d) will terminate immediately if Executive violates Sections 3.02, 3.03, or 3.05 of this Agreement or becomes reemployed with the Company or an Affiliate.

(e) Further Obligations. Upon termination of Executive's employment under this Agreement, neither the Company, Block, nor any Affiliate will have any further obligations under this Agreement and no further payments of Base Salary or other compensation or benefits will be payable by the Company, Block, or any Affiliate to Executive, except (i) as set forth in this Section 1.07, (ii) as required by the express terms of any written benefit plans or written arrangements maintained by the Company or Block and applicable to Executive at the time of such termination of Executive's employment, or (iii) as may be required by law. Any termination of this Agreement, however, will not be effective as to Sections 3.02, 3.03 and 3.05, or any other portions or provisions of this Agreement which, by their express terms, require performance by either party following termination of this Agreement.

ARTICLE TWO

CONFIDENTIALITY

2.01 - Background and Relationship of Parties. The parties hereto acknowledge (for all purposes including, without limitation, Articles Two and Three of this Agreement) that Block and its subsidiaries have been and will be engaged in a continuous program of acquisition and development respecting their businesses, present and future, and that, in connection with Executive's employment by the Company, Executive will be expected to have access to all information of value to the Company and Block and that Executive's employment creates a relationship of confidence and trust between Executive and Block with respect to any information applicable to the businesses of Block and its subsidiaries. Executive will possess or have unfettered access to information that has been created, developed, or acquired by Block and its subsidiaries or otherwise become known to Block and its subsidiaries and which has commercial value in the businesses in which Block and its subsidiaries have been and will be engaged and has not been

publicly disclosed by Block. All information described above is hereinafter called "Proprietary Information." By way of illustration, but not limitation, Proprietary Information includes trade secrets, customer lists and information, employee lists and information, developments, systems, designs, software, databases, know-how, marketing plans, product information, business and financial information and plans, strategies, forecasts, new products and services, financial statements, budgets, projections, prices, and acquisition and disposition plans. Proprietary Information does not include any portions of such information that are now or hereafter made public by third parties in a lawful manner or made public by parties hereto without violation of this Agreement.

2.02 - Proprietary Information is Property of Block.

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

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

ARTICLE THREE

NON-HIRING; NON-SOLICITATION; NO CONFLICTS; NON-COMPETITION

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

Company, Affiliates and their employees, agents, directors, and clients from the unauthorized use and appropriation of Block Employee information, Proprietary Information, and trade secret business information developed, held, or used by Block, the Company, or Affiliates, and to protect Block, the Company, and Affiliates and their employees, agents, directors, and customers Executive agrees to the covenants described in this Article III.

3.02 - Non-Hiring. During the period of Executive's employment hereunder, and for a period of 1 year after Executive's Last Day of Employment, Executive may not directly or indirectly recruit, solicit, or hire any Block Employee or otherwise induce any such Block Employee to leave the employment of Block (or the applicable employer-subsidiary of Block) to become an employee of or otherwise be associated with any other party or with Executive or any company or business with which Executive is or may become associated. The running of the 1-year period will be suspended during any period of violation and/or any period of time required to enforce this covenant by litigation or threat of litigation.

3.03 - Non-Solicitation. During the period of Executive's employment hereunder and during the time Executive is receiving payments hereunder, and for 2 years after the later of Executive's Last Day of Employment or cessation of such payments, Executive may not directly or indirectly solicit or enter into any arrangement with any person or entity which is, at the time of the solicitation, a significant customer of the Company or an Affiliate for the purpose of engaging in any business transaction of the nature performed by the Company or such Affiliate, or contemplated to be performed by the Company or such Affiliate, for such customer, provided that this Section 3.03 will only apply to customers for whom Executive personally provided services while employed by the Company or an Affiliate or customers about whom or which Executive acquired material information while employed by the Company or an Affiliate. The running of the 2-year period will be suspended during any period of violation and/or any period of time required to enforce this covenant by litigation or threat of litigation.

3.04 - No Conflicts. Executive represents in good faith that, to the best of Executive's knowledge, (i) Executive is not subject to any agreement that would be violated by the performance by Executive of the any of the terms of this Agreement and (ii) the performance by Executive of all the terms of this Agreement will not breach any agreement to which Executive is or was a party and which requires Executive to keep any information in confidence or in trust. Executive has not brought and will not bring to the Company or Block, nor will Executive use in the performance of employment responsibilities at the Company, any proprietary materials or documents of a former employer that are not generally available to the public, unless Executive has obtained express written authorization from such former employer for their possession and use. Absent the existence of such express written authorization, Executive agrees to return any such proprietary materials or documents to such former employer prior to commencing employment with the Company. Executive has not and will not breach any obligation of confidentiality that Executive may have to former employers and Executive will fulfill all such obligations during Executive's employment with the Company.

3.05 - Non-Competition. During the period of Executive's employment hereunder and during the time Executive is receiving payments hereunder, and for 2 years after the later of

Executive's Last Day of Employment or cessation of such payments, Executive may not engage in, or own or control any interest in (except as a passive investor in less than one percent of the outstanding securities of publicly held companies), or act as an officer, director or employee of, or consultant, advisor or lender to, any firm, corporation, partnership, limited liability company, institution, business, or entity that engages in any line of business that is competitive with any Line of Business of Block (as defined below), provided that this Section 3.05 will not apply to Executive if Executive's primary place of employment by the Company or an Affiliate as of the Last Day of Employment is in either the State of California or the State of North Dakota. "Line of Business of Block" means any line of business of Block and all of its subsidiaries, the revenues of which constituted 20% or more of the consolidated earnings before income taxes of Block for the fiscal year of Block completed on, or most recently completed prior to, Executive's Last Day of Employment. For purposes determining what constitutes a Line of Business of Block pursuant to this Section 3.05, the provision of income tax return preparation or filing services (including, without limitation, electronic filing and Internet-based tax preparation and filing services), associated refund products and services, and the provision of personal financial software products (including, without limitation, tax preparation software) shall be deemed to be one Line of Business of Block. The running of the 2-year period will be suspended during any period of violation and/or any period of time required to enforce this covenant by litigation or threat of litigation.

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

ARTICLE FOUR

MISCELLANEOUS

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

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

4.03 - Specific Performance by Executive. The parties hereto acknowledge that money damages alone will not adequately compensate the Company or Block or Executive for breach of any of the covenants and agreements herein and, therefore, in the event of the breach or threatened breach of any such covenant or agreement by either party, in addition to all other remedies available at law, in equity or otherwise, a wronged party will be entitled to injunctive relief compelling specific performance of (or other compliance with) the terms hereof.

4.04 - Successors and Assigns. This Agreement is binding upon Executive and the heirs, executors, assigns and administrators of Executive or Executive's estate and property and will inure to the benefit of the Company, Block and their successors and assigns. Executive may not assign or transfer to others the obligation to perform Executive's duties hereunder. The Company may assign this Agreement to an Affiliate with the consent of Executive, in which case, after such assignment, the "Company" means the Affiliate to which this Agreement has been assigned.

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

4.06 - Indemnification. To the fullest extent permitted by law and Block's Bylaws, the Company hereby indemnifies during and after the period of Executive's employment hereunder Executive from and against all loss, costs, damages, and expenses including, without limitation, legal expenses of counsel selected by the Company to represent the interests of Executive (which expenses the Company will, to the extent so permitted, advance to executive as the same are incurred) arising out of or in connection with the fact that Executive is or was a director, officer, employee, or agent of the Company or Block or serving in such capacity for another corporation at the request of the Company or Block. Notwithstanding the foregoing, the indemnification provided in this Section 4.06 will not apply to any loss, costs, damages, and expenses arising out of or relating in any way to any employment of Executive by any former employer or the termination of any such employment.

4.07 - Right to Offset. To the extent not prohibited by applicable law and in addition to any other remedy, the Company has the right but not the obligation to offset any amount that Executive owes the Company under this Agreement against any amounts due Executive by Block, the Company, or Affiliates.

4.08 - Waiver of Jury Trial. Both parties to this Agreement, and Block, as a third-party beneficiary pursuant to Section 4.01 of this Agreement, waive any and all right to any trial by jury in any action or proceeding directly or indirectly related to this Agreement and Executive's employment hereunder.

4.09 - Notices. All notices required or desired to be given hereunder must be in writing and will be deemed served and delivered if delivered in person or mailed, postage prepaid to Executive at: 4400 Main Street, Kansas City, Missouri 64111; and to the Company at: 4400 Main Street, Kansas City, Missouri 64111, Attn: President, with a copy to H&R Block, Inc., 4400

Main Street, Kansas City, Missouri 64111, Attn: Corporate Secretary; or to such other address and/or person designated by either party in writing to the other party. Any notice given by mail will be deemed given as of the date it is so mailed and postmarked or received by a nationally recognized overnight courier for delivery.

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

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

EXECUTIVE:

Dated: February 2, 2004

/s/ Nicholas J. Spaeth

Nicholas J. Spaeth

Accepted and Agreed:

HRB Management, Inc.,
a Missouri corporation

By: /s/ Mark. A. Ernst

Mark A. Ernst
President

Dated: February 2, 2004

EXHIBIT A

H&R BLOCK SEVERANCE PLAN
AMENDED AND RESTATED AUGUST 11, 2003

1. PURPOSE. The H&R Block Severance Plan is a welfare benefit plan established by HRB Management, Inc., an indirect subsidiary of H&R Block, Inc., for the benefit of certain subsidiaries of H&R Block, Inc. in order to provide severance compensation and benefits to certain employees of such subsidiaries whose employment is involuntarily terminated under the conditions set forth herein. This document constitutes both the plan document and the summary plan description required by the Employee Retirement Income Security Act of 1974.

2. DEFINITIONS.

(a) "Cause" means one or more of the following grounds of an Employee's termination of employment with a Participating Employer:

(i) misconduct that interferes with or prejudices the proper conduct of the Company, the Employee's Participating Employer, or any other affiliate of the Company, or which may reasonably result in harm to the reputation of the Company, the Employee's Participating Employer, or any other affiliate of the Company;

(ii) commission of an act of dishonesty or breach of trust resulting or intending to result in material personal gain or enrichment of the Employee at the expense of the Company, the Employee's Participating Employer, or any other affiliate of the Company;

(iii) commission of an act materially and demonstrably detrimental to the good will of the Company, the Employee's Participating Employer, or any other affiliate of the Company, which act constitutes gross negligence or willful misconduct by the Employee in the performance of the Employee's material duties;

(iv) material violations of the policies or procedures of the Employee's Participating Employer, including, but not limited to, the H&R Block Code of Business Ethics & Conduct, except those policies or procedures with respect to which an exception has been granted under authority exercised or delegated by the Participating Employer;

(v) disobedience, insubordination or failure to discharge employment duties;

(vi) conviction of, or entrance of a plea of guilty or no contest, to a misdemeanor (involving an act of moral turpitude) or a felony;

(vii) inability of the Employee, the Company, the Employee's Participating Employer, and/or any other affiliate of the Company to participate, in whole or in part, in any activity subject to governmental regulation as the result of any action or inaction on the part of the Employee;

(viii) the Employee's death or total and permanent disability. The term "total and permanent disability" will have the meaning ascribed thereto under any long-term disability plan maintained by the Employee's Participating Employer;

(ix) any grounds described as a discharge or other similar term on the Participating Employer's separation review form or other similar document stating the reason for the Employee's termination of employment, including poor performance; or

(x) any other grounds of termination of employment that the Participating Employer deems for cause.

Notwithstanding the definition of Cause above, if an Employee's employment with a Participating Employer is subject to an employment agreement that contains a definition of "cause" for purposes of termination of employment, such definition of "cause" in such employment agreement shall replace the definition of Cause herein for the purpose of determining whether the Employee has incurred a Qualifying Termination, but only with respect to such Employee.

(b) "Company" means H&R Block, Inc.

(c) "Employee" means a regular full-time or part-time, active employee of a Participating Employer whose employment with a Participating Employer is not subject to an employment contract that contains a provision that includes severance benefits. This definition expressly excludes employees of a Participating Employer classified as seasonal, temporary and/or inactive and employees who are customarily employed by a Participating Employer less than 20 hours per week.

(d) "ERISA" means the Employee Retirement Income Security Act of 1974, as amended.

(e) "Hour of Service" means each hour for which an individual was entitled to compensation as a regular full-time or part-time employee from a subsidiary of the Company.

(f) "Line of Business of the Company" with respect to a Participant means any line of business of the Participating Employer by which the Participant was employed as of the Termination Date, as well as any one or more lines of business of any other subsidiary of the Company by which the Participant was employed during

the two-year period preceding the Termination Date, provided that, if Participant's employment was, as of the Termination Date or during the two-year period immediately prior to the Termination Date, with HRB Management, Inc. or any successor entity thereto, "Line of Business of the Company" shall mean any lines of business of the Company and all of its subsidiaries.

(g) "Monthly Salary" means -

(i) with respect to an Employee paid on a salary basis, the Employee's current annual salary divided by 12; and

(ii) with respect to an Employee paid on an hourly basis, the Employee's current hourly rate times the number of hours he or she is regularly scheduled to work per week multiplied by 52 and then divided by 12.

(h) "Participant" means an Employee who has incurred a Qualifying Termination and has signed a Release that has not been revoked during any revocation period provided under the Release.

(i) "Participating Employer" means a direct or indirect subsidiary of the Company (i) listed on Schedule A, attached hereto, which may change from time to time to reflect new Participating Employers or withdrawing Participating Employers, and (ii) approved by the Plan Sponsor for participation in the Plan.

(j) "Plan" means the "H&R Block Severance Plan," as stated herein, and as may be amended from time to time.

(k) "Plan Administrator" and "Plan Sponsor" means HRB Management, Inc. The address and telephone number of HRB Management, Inc. is 4400 Main Street, Kansas City, Missouri 64111, (816) 753-6900. The Employer Identification Number assigned to HRB Management, Inc. by the Internal Revenue Service is 43-1632589.

(l) "Qualifying Termination" means the involuntary termination of an Employee, but does not include a termination resulting from:

(i) the elimination of the Employee's position where the Employee was offered another position with a subsidiary of the Company at a comparable salary and benefit level, or where the termination results from a sale of assets or other corporate acquisition or disposition;

(ii) the redefinition of an Employee's position to a lower salary rate or grade;

(iii) the termination of an Employee for Cause; or

(iv) the non-renewal of employment contracts.

(m) "Release" means that agreement signed by and between an Employee who is eligible to participate in the Plan and the Employee's Participating Employer under which the Employee releases all known and potential claims against the Employee's Participating Employer and all of such employer's parents, subsidiaries, and affiliates.

(n) "Release Date" means, with respect to a Release that includes a revocation period, the date immediately following the expiration date of the revocation period in the Release that has been fully executed by both parties. "Release Date" means, with respect to a Release that does not include a revocation period, the date the Release has been fully executed by both parties.

(o) "Severance Period" means the period of time during which a Participant may receive benefits under this Plan. The Severance Period with respect to a Participant begins on the Termination Date. A Participant's Severance Period will be the shorter of (i) 12 months or (ii) a number of months equal to the whole number of Years of Service determined under Section 2(q), unless earlier terminated in accordance with Section 8 of the Plan.

(p) "Termination Date" means the date the Employee severs employment with a Participating Employer.

(q) "Year of Service" means each period of 12 consecutive months ending on the Employee's employment anniversary date during which the Employee had at least 1,000 Hours of Service. In determining a Participant's Years of Service, the Participant will be credited with a partial Year of Service for his or her final period of employment commencing on his or her most recent employment anniversary date equal to a fraction calculated in accordance with the following formula:

Number of days since most recent employment anniversary date

365

Despite an Employee's Years of Service calculated in accordance with the above, an Employee whose pay grade at his or her Participating Employer fits in the following categories at the time of the Qualifying Termination will be credited with no less than the specified Minimum Years of Service and no more than the specified Maximum Years of Service listed in the following table as applicable to such pay grade:

PAY GRADE	MINIMUM YEARS OF SERVICE	MAXIMUM YEARS OF SERVICE
81-89 and 231-235	6	18
65-80, 140-145, 185-190, and 218-230	3	18

57-64, 115-135, 175-180, and 210-217	1	18
48-56, 100-110, 170, and 200-209	1	18

Notwithstanding the above, if an Employee has received credit for Years of Service under this Plan or under any previous plan, program, or agreement for the purpose of receiving severance benefits before a Qualifying Termination, such Years of Service will be disregarded when calculating Years of Service for such Qualifying Termination under the Plan; provided, however, that if such severance benefits were terminated prior to completion because the Employee was rehired by any subsidiary of the Company then the Employee will be re-credited with full Years of Service for which severance benefits were not paid in full or in part because of such termination.

3. ELIGIBILITY AND PARTICIPATION.

An Employee who incurs a Qualifying Termination and signs a Release that has not been revoked during any revocation period under the Release is eligible to participate in the Plan. An eligible Employee will become a Participant in the Plan as of the Termination Date.

4. SEVERANCE COMPENSATION.

(a) Amount. Subject to Section 8, each Participant will receive during the Severance Period from the applicable Participating Employer aggregate severance compensation equal to:

(i) the Participant's Monthly Salary multiplied by the Participant's Years of Service; plus

(ii) one-twelfth of the Participant's target payout under the Short-Term Incentive Program of the Participating Employer in effect at the time of his or her Termination Date multiplied by the Participant's Years of Service; plus

(iii) an amount to be determined by the Participating Employer at its sole discretion, which amount may be zero.

(b) Timing of Payments. Except as stated in Section 4(c), and subject to Section 8,

(i) the sum of any amounts determined under Sections 4(a)(i) and 4(a)(ii) of the Plan will be paid in semi-monthly or bi-weekly installments (the timing and amount of each installment as determined by the Participating Employer) during the Severance Period beginning after the later of the

Termination Date or the Release Date; and

(ii) any amounts determined under Section 4(a)(iii) of the Plan will be paid in one lump sum within 15 days after the later of the Termination Date or the Release Date, unless otherwise agreed in writing by the Participating Employer and Participant or otherwise required by law.

(c) Death. In the event of the Participant's death prior to receiving all payments due under this Section 4, any unpaid severance compensation will be paid (i) in the same manner as are death benefits under the Participant's basic life insurance coverage provided by the Participant's Participating Employer, and (ii) in accordance with the Participant's beneficiary designation under such coverage. If no such coverage exists, or if no beneficiary designation exists under such coverage as of the date of death of the Participant, the severance compensation will be paid to the Participant's estate in one-lump sum.

5. HEALTH AND WELFARE BENEFITS.

(a) Benefits. In addition to the severance compensation provided pursuant to Section 4 of the Plan, a Participant may continue to participate in the following health and welfare benefits provided by his or her Participating Employer during the Severance Period on the same basis as employees of the Participating Employer:

(i) medical;

(ii) dental;

(iii) vision;

(iv) employee assistance;

(v) medical expense reimbursement and dependent care expense reimbursement benefits provided under a cafeteria plan;

(vi) life insurance (basic and supplemental); and

(vii) accidental death and dismemberment insurance (basic and supplemental).

For the purposes of any of the above-described benefits provided under a Participating Employer's cafeteria plan, a Qualifying Termination constitutes a "change in status" or "life event."

(b) Payment and Expiration. Payment of the Participant's portion of contribution or premiums for such selected benefits will be withheld from any severance compensation payments paid to the Participant under this Plan. The

Participating Employer's partial subsidization of such coverages will remain in effect until the earlier of:

(i) the expiration or earlier termination of the Employee's Severance Period, after which time the Participant may be eligible to elect to continue coverage of those benefits listed above that are provided under group health plans in accordance with his or her rights under Section 4980B of the Internal Revenue Code; or

(ii) the Participant's attainment of or eligibility to attain health and welfare benefits through another employer after which time the Participant may be eligible to elect to continue coverage of those benefits listed above that are provided under group health plans in accordance with his or her rights under Section 4980B of the Internal Revenue Code.

6. STOCK OPTIONS.

(a) Accelerated Vesting. Any portion of any outstanding incentive stock options and nonqualified stock options that would have vested during the 18-month period following the Termination Date had the Participant remained an employee with the Participating Employer during such 18-month period will vest as of the Termination Date. This Section 6(a) applies only to options (i) granted to the Participant under the Company's 1993 Long-Term Executive Compensation Plan, or any successor plan to its 1993 Long-Term Executive Compensation Plan, not less than 6 months prior to his or her Termination Date and (ii) outstanding at the close of business on such Termination Date. The determination of accelerated vesting under this Section 6(a) shall be made as of the Termination Date and shall be based solely on any time-specific vesting schedule included in the applicable stock option agreement without regard to any accelerated vesting provision not related to the Plan in such agreement.

(b) Post-Termination Exercise Period. Subject to the expiration dates and other terms of the applicable stock option agreements, the Participant may elect to have the right to exercise any outstanding incentive stock options and nonqualified stock options granted prior to the Termination Date to the Participant under the Company's 1984 Long-Term Executive Compensation Plan, its 1993 Long-Term Executive Compensation Plan, or any successor plan to its 1993 Long-Term Executive Compensation Plan that are vested as of the Termination Date (or, if later, the Release Date), whether due to the operation of Section 6(a), above, or otherwise, at any time during the Severance Period and, except in the event that the Severance Period terminates pursuant to Section 8(a), for a period up to 3 months after the end of the Severance Period (notwithstanding Section 8). Any such election shall apply to all outstanding incentive stock options and nonqualified stock options, will be irrevocable and must be made in writing

and delivered to the Plan Administrator on or before the later of the Termination Date or Release Date. If the Participant fails to make an election, the Participant's right to exercise such options will expire 3 months after the Termination Date.

(c) Stock Option Agreement Amendment. The operation of Sections 6(a) and 6(b), above, are subject to the Participant's execution of an amendment to any affected stock option agreements, if necessary.

7. OUTPLACEMENT SERVICES. In addition to the benefits described above, career transition counseling or outplacement services may be provided upon the Participant's Qualifying Termination. Such outplacement service will be provided at the Participating Employer's sole discretion. Outplacement services are designed to assist employees in their search for new employment and to facilitate a smooth transition between employment with the Participating Employer and employment with another employer. Any outplacement services provided under this Plan will be provided by an outplacement service chosen by the Participating Employer. The Participant is not entitled to any monetary payment in lieu of outplacement services.

8. TERMINATION OF BENEFITS. Any right of a Participant to severance compensation and benefits under the Plan, and all obligations of his or her Participating Employer to pay any unpaid severance compensation or provide benefits under the Plan will terminate as of the day:

(a) The Participant has engaged in any conduct described in Sections 8(a)(i), 8(a)(ii), 8(a)(iii) or 8(a)(iv), below, as the same may be limited pursuant to Section 8(a)(vi).

(i) During the Severance Period, the Participant's engagement in, ownership of, or control of any interest in (except as a passive investor in less than one percent of the outstanding securities of publicly held companies), or acting as an officer, director or employee of, or consultant, advisor or lender to, any firm, corporation, partnership, limited liability company, institution, business, government agency, or entity that engages in any line of business that is competitive with any Line of Business of the Company, provided that this Section 8(a)(i) shall not apply to the Participant if the Participant's primary place of employment by a subsidiary of the Company as of the Termination Date is in either the State of California or the State of North Dakota.

(ii) During the Severance Period, the Participant employs or solicits for employment by any employer other than a subsidiary of the Company any employee of any subsidiary of the Company, or recommends any such employee for employment to any

employer (other than a subsidiary of the Company) at which the Participant is or intends to be (A) employed, (B) a member of the Board of Directors, (C) a partner, or (D) providing consulting services.

(iii) During the Severance Period, the Participant directly or indirectly solicits or enters into any arrangement with any person or entity which is, at the time of the solicitation, a significant customer of a subsidiary of the Company for the purpose of engaging in any business transaction of the nature performed by such subsidiary, or contemplated to be performed by such subsidiary, for such customer, provided that this Section 8(a)(iii) shall only apply to customers for whom the Participant personally provided services while employed by a subsidiary of the Company or customers about whom or which the Participant acquired material information while employed by a subsidiary of the Company.

(iv) During the Severance Period, the Participant misappropriates or improperly uses or discloses confidential information of the Company and/or its subsidiaries.

(v) If the Participant engaged in any of the conduct described in Sections 8(a)(i), 8(a)(ii), 8(a)(iii) or 8(a)(iv) during or after Participant's term of employment with a Participating Employer, but prior to the commencement of the Severance Period, and such engagement becomes known to the Participating Employer during the Severance Period, such conduct shall be deemed, for purposes of Sections 8(a)(i), 8(a)(ii), 8(a)(iii) or 8(a)(iv) to have occurred during the Severance Period.

(vi) If the Participant is a party to an employment contract with a Participating Employer that contains a covenant or covenants relating to the Participant's engagement in conduct that is the same as or substantially similar to the conduct described in any of Sections 8(a)(i), 8(a)(ii), 8(a)(iii) or 8(a)(iv), and any specific conduct regulated in such covenant or covenants in such employment contract is more limited in scope geographically or otherwise than the corresponding specific conduct described in any of such Sections 8(a)(i), 8(a)(ii), 8(a)(iii) or 8(a)(iv), then the corresponding specific conduct addressed in the applicable Section 8(a)(i), 8(a)(ii), 8(a)(iii) or 8(a)(iv) shall be limited to the same

extent as such conduct is limited in the employment contract and the Participating Employer's rights and remedy with respect to such conduct under this Section 8 shall apply only to such conduct as so limited.

(b) The Participant is rehired by his or her Participating Employer or hired by any other subsidiary of the Company in any position other than a position classified as seasonal by such employer.

9. AMENDMENT AND TERMINATION. The Plan Sponsor reserves the right to amend the Plan or to terminate the Plan and all benefits hereunder in their entirety at any time.

10. ADMINISTRATION OF PLAN. The Plan Administrator has the power and discretion to construe the provisions of the Plan and to determine all questions relating to the eligibility of employees of Participating Employers to become Participants in the Plan, and the amount of benefits to which any Participant may be entitled thereunder in accordance with the Plan. Not in limitation, but in amplification of the foregoing and of the authority conferred upon the Plan Administrator, the Plan Sponsor specifically intends that the Plan Administrator have the greatest permissible discretion to construe the terms of the Plan and to determine all questions concerning eligibility, participation and benefits. Any such decision made by the Plan Administrator will be binding on all Employees, Participants, and beneficiaries, and is intended to be subject to the most deferential standard of judicial review. Such standard of review is not to be affected by any real or alleged conflict of interest on the part of the Plan Administrator. The decision of the Plan Administrator upon all matters within the scope of its authority will be final and binding.

11. CLAIMS PROCEDURES.

(a) FILING A CLAIM FOR BENEFITS. Participants are not required to submit claim forms to initiate payment of benefits under this Plan. To make a claim for benefits, individuals other than Participants who believe they are entitled to receive benefits under this Plan and Participants who believe they have been denied certain benefits under the Plan must write to the Plan Administrator. These individuals and such Participants are hereinafter referred to in this Section 11 as "Claimants." Claimants must notify the Plan Administrator if they will be represented by a duly authorized representative with respect to a claim under the Plan.

(b) INITIAL REVIEW OF CLAIMS. The Plan Administrator will evaluate a claim for benefits under the Plan. The Plan Administrator may solicit additional information from the Claimant if necessary to evaluate the claim. If the Plan Administrator denies all or any portion of the claim, the Claimant will receive, within 90 days after the receipt of the written claim, a written notice setting forth:

(i) the specific reason for the denial;

(ii) specific references to pertinent Plan provisions on which the Plan Administrator based its denial;

(iii) a description of any additional material and information needed for the Claimant to perfect his or her claim and an explanation of why the material or information is needed; and

(iv) that any appeal the Claimant wishes to make of the adverse determination must be in writing to the Plan Administrator within 60 days after receipt of the notice of denial of benefits. The notice must advise the Claimant that his or her failure to appeal the action to the Plan Administrator in writing within the 60-day period will render the Plan Administrator's determination final, binding and conclusive. The notice must further advise the Claimant of his or her right to bring a civil action under Section 502(a) of ERISA following the exhaustion of the claims procedures described herein.

(c) APPEAL OF DENIED CLAIM AND FINAL DECISION. If the Claimant should appeal to the Plan Administrator, the Claimant, or his or her duly authorized representative, must submit, in writing, whatever issues and comments the Claimant or his or her duly authorized representative feels are pertinent. The Claimant, or his or her duly authorized representative, may review and request pertinent Plan documents. The Plan Administrator will reexamine all facts related to the appeal and make a final determination as to whether the denial of benefits is justified under the circumstances. The Plan Administrator will advise the Claimant in writing of its decision within 60 days of the Claimant's written request for review, unless special circumstances (such as a hearing) require an extension of time, in which case the Plan Administrator will make a decision as soon as possible, but no later than 120 days after its receipt of a request for review.

12. PLAN FINANCING. The benefits to be provided under the Plan will be paid by the applicable Participating Employer, as incurred, out of the general assets of such Participating Employer.

13. GENERAL INFORMATION. The Plan's records are maintained on a calendar year basis. The Plan Number is 509. The Plan is self-administered and is considered a severance plan.

14. GOVERNING LAW. The Plan is established in the State of Missouri. To the extent federal law does not apply, any questions arising under the Plan will be determined under the laws of the State of Missouri.

15. ENFORCEABILITY; SEVERABILITY. If a court of competent jurisdiction determines that any provision of the Plan is not enforceable, then such provision shall be enforceable to the maximum extent possible under applicable law, as determined by such court. The invalidity or unenforceability of any provision of the Plan, as determined by a court of competent jurisdiction, will not affect the validity or enforceability of any other provision of

the Plan and all other provisions will remain in full force and effect.

16. WITHHOLDING OF TAXES. The applicable Participating Employer may withhold from any benefit payable under the Plan all federal, state, city or other taxes as may be required pursuant to any law, governmental regulation or ruling. The Participant shall pay upon demand by the Company or the Participating Employer any taxes required to be withheld or collected by the Company or the Participating Employer upon the exercise by the Participant of a nonqualified stock option granted under the Company's 1984 Long-Term Executive Compensation Plan or its 1993 Long-Term Executive Compensation Plan. If the Participant fails to pay any such taxes associated with such exercise upon demand, the Participating Employer shall have the right, but not the obligation, to offset such taxes against any unpaid severance compensation under this Plan.

17. NOT AN EMPLOYMENT AGREEMENT. Nothing in the Plan gives an Employee any rights (or imposes any obligations) to continued employment by his or her Participating Employer or other subsidiary of the Company, nor does it give such Participating Employer any rights (or impose any obligations) for the continued performance of duties by the Employee for the Participating Employer or any other subsidiary of the Company.

18. NO ASSIGNMENT. The Employee's right to receive payments of severance compensation and benefits under the Plan are not assignable or transferable, whether by pledge, creation of a security interest, or otherwise. In the event of any attempted assignment or transfer contrary to this Section 18, the applicable Participating Employer will have no liability to pay any amount so attempted to be assigned or transferred.

19. SERVICE OF PROCESS. The Secretary of the Plan Administrator is designated as agent for service of legal process. Service of legal process may be made upon the Secretary of the Plan Administrator at:

HRB Management, Inc.
Attn: Secretary
4400 Main Street
Kansas City, Missouri 64111

20. STATEMENT OF ERISA RIGHTS. As a participant in the Plan, you are entitled to certain rights and protections under ERISA, which provides that all Plan Participants are entitled to:

(a) examine without charge, at the Plan Administrator's office, all documents governing the Plan and a copy of the latest annual report (Form 5500 Series) filed by the Plan with the U.S. Department of Labor and available at the Public Disclosure Room of the Pension and Welfare Benefit Administration;

(b) obtain, upon written request to the Plan Administrator, copies of documents governing the operation of the Plan, copies of the latest annual report (Form 5500 Series) and an updated summary plan description. The Plan Administrator may

make a reasonable charge for the copies; and

(c) receive a summary of the Plan's annual financial report if required to be filed for the year. The Plan Administrator is required by law to furnish each participant with a copy of this summary annual report if an annual report is required to be filed for the year.

In addition to creating rights for Plan Participants, ERISA imposes duties upon the people who are responsible for the operation of the Plan. The people who operate your Plan, called "fiduciaries" of the Plan, have a duty to do so prudently and in the interest of you and other Plan Participants and beneficiaries. No one, including your Participating Employer or any other person, may fire you or otherwise discriminate against you in any way to prevent you from obtaining a welfare benefit or exercising your rights under ERISA.

If your claim for a welfare benefit is denied or ignored, in whole or in part, you have the right to know why this was done, to obtain copies of documents relating to the decision without charge, and to appeal any denial, all within certain time schedules.

Under ERISA, there are steps you can take to enforce the above rights. For instance, if you request a copy of plan documents or the latest annual report from the Plan and do not receive them within 30 days, you may file suit in a Federal court. In such a case, the court may require the Plan Administrator to provide the materials to you and pay you up to $110 a day until you receive the materials, unless the materials were not sent because of reasons beyond the control of the Plan Administrator. If you have a claim for benefits that is denied or ignored, in whole or in part, you may file suit in a state or Federal court. If it should happen that you are discriminated against for asserting your rights, you may seek assistance from the U. S. Department of Labor, or you may file suit in a Federal court. The court will decide who should pay court costs and legal fees. If you are successful, the court may order the person you have sued to pay these costs and fees. If you lose, the court may order you to pay these costs and fees, for example, if it finds your claim is frivolous.

If you have any questions about the Plan, you should contact the Plan Administrator. If you have questions about this statement or about your rights under ERISA, or if you need assistance in obtaining documents from the Plan Administrator, you should contact the nearest office of the Pension and Welfare Benefits Administration, U.S. Department of Labor, listed in your telephone directory or the Division of Technical Assistance and Inquiries, Pension and Welfare Benefits Administration, U.S. Department of Labor, 200 Constitution Avenue N.W., Washington, D.C. 20210. You may also obtain certain publications about your rights and responsibilities under ERISA by calling the publications hotline of the Pension and Welfare Benefits Administration.

IN WITNESS WHEREOF, HRB Management, Inc. adopts this Severance Plan, as amended and restated, effective this 11th day of August, 2003.

HRB MANAGEMENT, INC.

/s/ Mark A, Ernst

Mark A. Ernst
President and Chief Executive Officer

SCHEDULE A

PARTICIPATING EMPLOYERS

Block Financial Corporation

Financial Marketing Services, Inc.

Franchise Partner, Inc.

H&R Block Investments, Inc.

H&R Block Services, Inc. and its U.S.-based direct and indirect subsidiaries

HRB Business Services, Inc.

H&R Block Small Business Resources, Inc.

HRB Management, Inc.

HRB Retail Services, Inc.

OLDE Financial Corporation and its U.S.-based direct and indirect subsidiaries, which subsidiaries include H&R Block Financial Advisors, Inc.

Exhibit 10.23

SEVERANCE AND RELEASE AGREEMENT

James Ingraham ("EMPLOYEE") and HRB Management, Inc. enter into this Separation and Release Agreement ("Release Agreement") under the terms and conditions recited below:

I. RECITATIONS

A. Due to changing business needs EMPLOYEE has been notified that his employment with HRB Management, Inc. will end on February 10, 2004 (the "Separation Date") due to elimination of his position.

B. EMPLOYEE and HRB Management, Inc. want to enter into a full and final settlement of all issues and matters between them, occurring on or before the later of the Separation Date or the date EMPLOYEE signs this Release Agreement. These include, but are not limited to, any issues and matters that may have arisen out of EMPLOYEE's employment with or separation from HRB Management, Inc..

C. For that reason and in exchange for the mutual promises of EMPLOYEE and HRB Management, Inc. set forth in this Release Agreement (which both parties agree are sufficient and valuable consideration), EMPLOYEE and HRB Management, Inc. have agreed to the terms and conditions set out below.

II. BASIC TERMS OF THE RELEASE AGREEMENT

A. HRB MANAGEMENT, INC. AGREES TO THE FOLLOWING:

1. Upon receipt of a fully executed copy of this Release Agreement and after the expiration of the period defined in paragraph

III(B) below, HRB Management, Inc. agrees to provide EMPLOYEE with the payments and benefits to which EMPLOYEE would be entitled under the H&R Block Severance Plan (the "Plan"). A copy of the Plan is attached to this Release Agreement as Exhibit A. To be fully executed, EMPLOYEE's signature must be notarized. EMPLOYEE is not entitled to any payments or benefits under the Plan unless EMPLOYEE signs and returns this Release Agreement within twenty-one (21) calendar days of being presented with it. EMPLOYEE may, at his option, elect to waive the twenty-one (21) calendar day consideration period, through signature of this Release Agreement, at any time prior to the conclusion of the twenty-one (21) day period. Assuming EMPLOYEE chooses to sign this Release Agreement and that such signature becomes binding because EMPLOYEE has not revoked his signature within seven (7) calendar days after signing, the terms of the Plan govern the payments and benefits to which EMPLOYEE is entitled. EMPLOYEE is not entitled to any payments or benefits under the Plan unless EMPLOYEE fully executes and returns this Release Agreement to: Connie Greenfield, Compensation Department, H&R Block, 4400 Main Street, Kansas City, MO 64111.

2. As set forth in the Plan (in the event of any discrepancy, the terms of the Plan control), the payments available to the EMPLOYEE under the Plan are:

NONDISCRETIONARY AMOUNT: $441,000.00 (to be paid in semi-monthly or bi-weekly installments as determined by HRB Management, Inc. during the Severance period).

SEVERANCE PERIOD: 12.00 months (unless earlier terminated in accordance with the Plan).

Any change to the consideration given for this Release

Agreement, whether material or immaterial, shall not cause the

21-day period to start over.

B. EMPLOYEE AGREES TO THE FOLLOWING:

1. Release of Claims. EMPLOYEE agrees to release and discharge HRB Management, Inc., and any of its related companies, present and former officers, agents, successors, assigns, other employees and attorneys from any and all claims arising before the later of the Separation Date or the date EMPLOYEE signs the Release and Agreement including, without limitation, any claims that may have arisen from EMPLOYEE's employment with or separation from HRB Management, Inc., all as more fully set forth in paragraphs IV(A) through (E) below.

2. Confidential Information. EMPLOYEE agrees, during and after the term of this Release Agreement he will not, without the prior written consent of HRB Management, Inc., directly or indirectly use for the benefit of any person or entity other than HRB Management, Inc., or make known, divulge or communicate to any person, firm, corporation or other entity, any confidential or proprietary information, knowledge or trade secrets acquired, developed or learned of by EMPLOYEE during his employment with HRB Management, Inc.. EMPLOYEE shall not retain after the Separation Date, any document, record, paper, disk, tape or compilation of information relating to any such confidential information.

3. Return of HRB Management, Inc.'s Property. EMPLOYEE shall return to HRB Management, Inc. by the Separation Date, any and all things in his possession or control relating to HRB Management, Inc. and its related entities, including but not limited to any equipment issued to EMPLOYEE, all correspondence, reports, contracts, financial or budget information, personnel or labor relations files, office keys, manuals, and all similar materials not specifically listed here.

4. Non-solicitation of HRB Management, Inc.'s Employees. EMPLOYEE shall not solicit any HRB Management, Inc. employee or any employee of HRB Management, Inc.'s parent,

subsidiary or affiliate companies, for any purpose whatsoever for a one-year period after the Termination Date.

5. Non-disparagement. EMPLOYEE agrees he will not disparage HRB Management, Inc. or make or solicit any comments to the media or others that may be considered derogatory or detrimental to the good business name or reputation of HRB Management, Inc.. This clause has no application to any communications with the Equal Employment Opportunity Commission or any state or local agency responsible for investigation and enforcement of discrimination laws.

III. ACKNOWLEDGMENTS AND ADDITIONAL TERMS

A. Revocation Period. EMPLOYEE acknowledges that if he accepts the terms of this Release Agreement he will have seven (7) calendar days after the date he signs this Release Agreement to revoke her/his acceptance of its terms. Such revocation, to be effective, must be delivered by written notice, in a manner so the notice is received on or before the seventh day by: Connie Greenfield, Compensation Department, H&R Block, 4400 Main Street, Kansas City, MO 64111.

B. Opportunity to Consult Attorney. EMPLOYEE acknowledges he has consulted or has had the opportunity to consult with her/his attorney prior to executing the Release Agreement.

C. No Admission of Liability. EMPLOYEE and HRB Management, Inc. agree nothing in this Release Agreement is an admission by either of

any wrongdoing, either in violation of an applicable law or otherwise, and that nothing in this Release Agreement is to be construed as such by anyone.

D. Additional Consideration. EMPLOYEE agrees provision of the payments and benefits set forth in paragraph II(A)(1) is valuable consideration to which EMPLOYEE would not otherwise be entitled.

E. Choice of Law. All disputes which arise out of the interpretation and enforcement of this Release Agreement shall be governed by the laws of the State of Missouri without giving effect to its choice of law provisions.

F. Entire Agreement. This Release Agreement, including the terms of the Plan attached as Exhibit A, is the entire agreement between the parties. The parties acknowledge the terms of the Plan can be terminated or changed according to the terms set forth in the Plan. The parties acknowledge the terms of this Release Agreement can only be changed by a written amendment to the Release Agreement signed by both parties.

G. No Reliance. The parties have not relied on any representations, promises, or agreements of any kind made to them in connection with this Release and Agreement, except for those set forth in writing in this Release Agreement or in the Plan.

H. Separate Signatures. Separate copies of this Release Agreement shall constitute originals which may be signed separately but which together will constitute one single agreement.

I. Effective Date. This Release Agreement becomes effective and binding on the eighth calendar day following EMPLOYEE's execution of the Release Agreement.

J. Severability. If any provision of this Release Agreement, including the Plan, is held to be invalid, the remaining provisions shall remain in full force and effect.

K. Continuing Obligations. Any continuing obligations EMPLOYEE has after separation of employment pursuant to any employment agreement with HRB Management, Inc., the Plan, or by operation of law survive this Release Agreement. The terms of this Release Agreement add to any such obligations and are not intended to otherwise modify them in any way.

L. Paragraph Headings. Paragraph headings contained in this Release Agreement are for convenience only and shall not in any manner be construed as a part of this Release Agreement.

M. Waive Notice Period. By this Severance and Release Agreement, the parties agree to waive any notice of termination required by either Section 1.06(b) of the Employment Agreement dated as of September 12, 2001 between HRB Management, Inc. and EMPLOYEE (the "Employment Agreement") or any HRB Management, Inc. policy,

without such waiver affecting any of HRB Management, Inc.'s or EMPLOYEE's rights or benefits dependent on such notice.

IV. RELEASE

A. In consideration of the recitations and agreements listed above, EMPLOYEE releases, and forever discharges HRB Management, Inc., and each and every one of its parent, affiliate, subsidiary, component, predecessor, and successor companies, and their respective past and present agents, officers, executives, employees, attorneys, directors, and assigns (collectively the "Releasees"), from any and all matters, claims, charges, demands, damages, causes of action, debts, liabilities, controversies, claims for attorneys' fees, judgments, and suits of every kind and nature whatsoever, foreseen or unforeseen, known or unknown, which have arisen between EMPLOYEE and the Releasees up to the later of the Separation Date or the date EMPLOYEE signs this Release Agreement.

B. This release of claims includes, but is not limited to: (1) any claims he may have relating to any aspect of her/his employment with the Releasees and/or the separation of that employment, (2) any breach of an actual or implied contract of employment between EMPLOYEE and the Releasees, (3) any claim of unjust or tortious discharge, (4) any common-law claim (including but not limited to fraud, negligence, intentional or negligent infliction of emotional distress, negligent hiring/retention/supervision, or defamation), and (5)(i) any claims of

violations arising under the Civil Rights Act of 1866, 42 U.S.C. Section 1981, (ii) the Civil Rights Act of 1964, 42 U.S.C. Sections 2000e, et seq., as amended by the Civil Rights Act of 1991, (iii) the Age Discrimination in Employment Act, 29 U.S.C. Sections 621, et seq. (including but not limited to the Older Worker Benefit Protection Act), (iv) the Employee Retirement Income Security Act, 29 U.S.C. Sections 1001, et seq., (v) the Fair Labor Standards Act of 1938, 29 U.S.C. Sections 201, et seq., (vi) the Rehabilitation Act of 1973, 29 U.S.C. Sections 701, et seq., (vii) the American with Disabilities Act, 42 U.S.C. Sections 12101, et seq., (viii) the Family and Medical Leave Act, 29 U.S.C.Section 2601, et seq., (ix) the Occupational Safety and Health Act, 29 U.S.C. Sections 651, et. seq., (x) the National Labor Relations Act, 29 U.S.C. Sections 151, et. seq., (xi) the Worker Adjustment and Retraining Notification Act, 29 U.S.C. Sections 2101, et seq., (6) any applicable state employment discrimination statute, (7) any applicable state worker's compensation statute, and (8) any other federal, state, or local statutes or ordinances.

C. EMPLOYEE further agrees in the event any person or entity should bring such a charge, claim, complaint, or action on her/his behalf, he hereby waives and forfeits any right to recovery under said claim and will exercise every good faith effort to have such claim dismissed. This Release Agreement does not affect, however, the Equal Employment

Opportunity Commission's ("EEOC's") rights and responsibilities to investigate or enforce applicable employment discrimination statutes.

D. For purposes of the Age Discrimination in Employment Act ("ADEA") only, this Release Agreement does not affect the EEOC's rights and responsibilities to enforce the ADEA, nor does this Agreement prohibit EMPLOYEE from filing a charge under the ADEA (including a challenge to the validity of the waiver of claims in this Release Agreement) with the EEOC, or participating in any investigation or proceeding conducted by the EEOC. Nevertheless, EMPLOYEE agrees that the Releasees will be shielded against any recovery by EMPLOYEE, provided this Release Agreement is valid under applicable law.

E. EMPLOYEE agrees he waives any right to participate in any settlement, verdict or judgment in any class action against the Releasees arising from conduct occurring on or before the date EMPLOYEE signs this Release Agreement, and that he waives any right to accept anything of value or any injunctive relief associated with any such pending or threatened class action against the Releasees.

F. Notwithstanding the foregoing, the termination of EMPLOYEE's employment and the foregoing release will not affect or terminate any of the obligations of HRB Management, Inc. under this Severance and Release Agreement; any provisions of the Employment Agreement which,

by their express terms as set forth therein, impose continuing obligations on HRB Management, Inc. or its affiliates following termination of the Employee Agreement, including, but not limited to, the indemnification provisions under Section 4.06 of the Employment Agreement; or any post-termination obligations under any employee benefit plan in which EMPLOYEE participated during his employment.

THIS IS A RELEASE OF CLAIMS - READ CAREFULLY BEFORE SIGNING

I HAVE READ THIS SEVERANCE AND RELEASE AGREEMENT. I HAVE HAD THE OPPORTUNITY TO OBTAIN THE ADVICE OF LEGAL COUNSEL CONCERNING THE MEANING AND EFFECT OF THIS RELEASE AGREEMENT. HRB MANAGEMENT, INC. ADVISED ME TO SEEK THE ADVICE OF COUNSEL ON THIS ISSUE. I FULLY UNDERSTAND THE TERMS OF THIS RELEASE AGREEMENT AND I UNDERSTAND IT IS A COMPLETE AND FINAL RELEASE OF ANY OF MY CLAIMS AGAINST HRB MANAGEMENT, INC.. I SIGN THE RELEASE AGREEMENT AS MY OWN FREE ACT AND DEED.

2/10/04	/s/ James H. Ingraham
Date	EMPLOYEE

Subscribed and sworn to before me, a Notary Public, this 10th day of February, 2004.

/s/ Paula Panarisi

NOTARY PUBLIC

My Commission expires:

12/25/04

HRB Management, Inc.

Date February 11, 2004 By: /s/ Mark A. Ernst

EXHIBIT A

H&R BLOCK SEVERANCE PLAN

AMENDED AND RESTATED AUGUST 11, 2003

1. Purpose. The H&R Block Severance Plan is a welfare benefit plan established by HRB Management, Inc., an indirect subsidiary of H&R Block, Inc., for the benefit of certain subsidiaries of H&R Block, Inc. in order to provide severance compensation and benefits to certain employees of such subsidiaries whose employment is involuntarily terminated under the conditions set forth herein. This document constitutes both the plan document and the summary plan description required by the Employee Retirement Income Security Act of 1974.

2. Definitions.

(a) "Cause" means one or more of the following grounds of an Employee's termination of employment with a Participating Employer:

(i) misconduct that interferes with or prejudices the proper conduct of the Company, the Employee's Participating Employer, or any other affiliate of the Company, or which may reasonably result in harm to the reputation of the Company, the Employee's Participating Employer, or any other affiliate of the Company;

(ii) commission of an act of dishonesty or breach of trust resulting or intending to result in material personal gain or enrichment of the Employee at the expense of the Company, the Employee's Participating Employer, or any other affiliate of the Company;

(iii) commission of an act materially and demonstrably detrimental to the good will of the Company, the Employee's Participating Employer, or any other affiliate of the Company, which act constitutes gross negligence or willful misconduct by the Employee in the performance of the Employee's material duties;

(iv) material violations of the policies or procedures of the Employee's Participating Employer, including, but not limited to, the H&R Block Code of Business Ethics & Conduct, except those policies or procedures with respect to which an exception has been granted under authority exercised or delegated by the Participating Employer;

(v) disobedience, insubordination or failure to discharge employment duties;

(vi) conviction of, or entrance of a plea of guilty or no contest, to a misdemeanor (involving an act of moral turpitude) or a felony;

(vii) inability of the Employee, the Company, the Employee's Participating Employer, and/or any other affiliate of the Company to participate, in whole or in part, in any activity subject to governmental regulation as the result of any action or inaction on the part of the Employee;

(viii) the Employee's death or total and permanent disability. The term "total and permanent disability" will have the meaning ascribed thereto under any long-term disability plan maintained by the Employee's Participating Employer;

(ix) any grounds described as a discharge or other similar term on the Participating Employer's separation review form or other similar document stating the reason for the Employee's termination of employment, including poor performance; or

(x) any other grounds of termination of employment that the Participating Employer deems for cause.

Notwithstanding the definition of Cause above, if an Employee's employment with a Participating Employer is subject to an employment agreement that contains a definition of "cause" for purposes of termination of employment, such definition of "cause" in such employment agreement shall replace the definition of Cause herein for the purpose of determining whether the Employee has incurred a Qualifying Termination, but only with respect to such Employee.

(b) "Company" means H&R Block, Inc.

(c) "Employee" means a regular full-time or part-time, active employee of a Participating Employer whose employment with a Participating Employer is not subject to an employment contract that contains a provision that includes severance benefits. This definition expressly excludes employees of a Participating Employer classified as seasonal, temporary and/or inactive and employees who are customarily employed by a Participating Employer less than 20 hours per week.

(d) "ERISA" means the Employee Retirement Income Security Act of 1974, as amended.

(e) "Hour of Service" means each hour for which an individual was entitled to compensation as a regular full-time or part-time employee from a subsidiary of the Company.

(f) "Line of Business of the Company" with respect to a Participant means any line of business of the Participating Employer by which the Participant was employed as of the Termination Date, as well as any one or more lines of business of any other subsidiary of the Company by which the Participant was employed during the two-year period preceding the Termination Date, provided that, if Participant's employment was, as of the Termination Date or during the two-year period

immediately prior to the Termination Date, with HRB Management, Inc. or any successor entity thereto, "Line of Business of the Company" shall mean any lines of business of the Company and all of its subsidiaries.

(g) "Monthly Salary" means -

(i) with respect to an Employee paid on a salary basis, the Employee's current annual salary divided by 12; and

(ii) with respect to an Employee paid on an hourly basis, the Employee's current hourly rate times the number of hours he or she is regularly scheduled to work per week multiplied by 52 and then divided by 12.

(h) "Participant" means an Employee who has incurred a Qualifying Termination and has signed a Release that has not been revoked during any revocation period provided under the Release.

(i) "Participating Employer" means a direct or indirect subsidiary of the Company (i) listed on Schedule A, attached hereto, which may change from time to time to reflect new Participating Employers or withdrawing Participating Employers, and (ii) approved by the Plan Sponsor for participation in the Plan.

(j) "Plan" means the "H&R Block Severance Plan," as stated herein, and as may be amended from time to time.

(k) "Plan Administrator" and "Plan Sponsor" means HRB Management, Inc. The address and telephone number of HRB Management, Inc. is 4400 Main Street, Kansas City, Missouri 64111, (816) 753-6900. The Employer Identification Number assigned to HRB Management, Inc. by the Internal Revenue Service is 43-1632589.

(l) "Qualifying Termination" means the involuntary termination of an Employee, but does not include a termination resulting from:

(i) the elimination of the Employee's position where the Employee was offered another position with a subsidiary of the Company at a comparable salary and benefit level, or where the termination results from a sale of assets or other corporate acquisition or disposition;

(ii) the redefinition of an Employee's position to a lower salary rate or grade;

(iii) the termination of an Employee for Cause; or

(iv) the non-renewal of employment contracts.

(m) "Release" means that agreement signed by and between an Employee who is eligible to participate in the Plan and the Employee's Participating Employer under which the Employee releases all known and potential claims against the Employee's

Participating Employer and all of such employer's parents, subsidiaries, and affiliates.

(n) "Release Date" means, with respect to a Release that includes a revocation period, the date immediately following the expiration date of the revocation period in the Release that has been fully executed by both parties. "Release Date" means, with respect to a Release that does not include a revocation period, the date the Release has been fully executed by both parties.

(o) "Severance Period" means the period of time during which a Participant may receive benefits under this Plan. The Severance Period with respect to a Participant begins on the Termination Date. A Participant's Severance Period will be the shorter of (i) 12 months or (ii) a number of months equal to the whole number of Years of Service determined under Section 2(q), unless earlier terminated in accordance with Section 8 of the Plan.

(p) "Termination Date" means the date the Employee severs employment with a Participating Employer.

(q) "Year of Service" means each period of 12 consecutive months ending on the Employee's employment anniversary date during which the Employee had at least 1,000 Hours of Service. In determining a Participant's Years of Service, the Participant will be credited with a partial Year of Service for his or her final period of employment commencing on his or her most recent employment anniversary date equal to a fraction calculated in accordance with the following formula:

I. NUMBER OF DAYS SINCE MOST RECENT EMPLOYMENT ANNIVERSARY DATE

365

Despite an Employee's Years of Service calculated in accordance with the above, an Employee whose pay grade at his or her Participating Employer fits in the following categories at the time of the Qualifying Termination will be credited with no less than the specified Minimum Years of Service and no more than the specified Maximum Years of Service listed in the following table as applicable to such pay grade:

Pay Grade	A. Minimum Years of Service	Maximum Years of Service
81-89 and 231-235	6	18
65-80, 140-145, 185-190, and 218-230	3	18
57-64, 115-135, 175-180, and 210-217	1	18

48-56, 100-110, 170, and 200-209	1	18

Notwithstanding the above, if an Employee has received credit for Years of Service under this Plan or under any previous plan, program, or agreement for the purpose of receiving severance benefits before a Qualifying Termination, such Years of Service will be disregarded when calculating Years of Service for such Qualifying Termination under the Plan; provided, however, that if such severance benefits were terminated prior to completion because the Employee was rehired by any subsidiary of the Company then the Employee will be re-credited with full Years of Service for which severance benefits were not paid in full or in part because of such termination.

3. Eligibility and Participation.

An Employee who incurs a Qualifying Termination and signs a Release that has not been revoked during any revocation period under the Release is eligible to participate in the Plan. An eligible Employee will become a Participant in the Plan as of the Termination Date.

4. Severance Compensation.

(a) Amount. Subject to Section 8, each Participant will receive during the Severance Period from the applicable Participating Employer aggregate severance compensation equal to:

(i) the Participant's Monthly Salary multiplied by the Participant's Years of Service; plus

(ii) one-twelfth of the Participant's target payout under the Short-Term Incentive Program of the Participating Employer in effect at the time of his or her Termination Date multiplied by the Participant's Years of Service; plus

(iii) an amount to be determined by the Participating Employer at its sole discretion, which amount may be zero.

(b) Timing of Payments. Except as stated in Section 4(c), and subject to Section 8,

(i) the sum of any amounts determined under Sections 4(a)(i) and 4(a)(ii) of the Plan will be paid in semi-monthly or bi-weekly installments (the timing and amount of each installment as determined by the Participating Employer) during the Severance Period beginning after the later of the Termination Date or the Release Date; and

(ii) any amounts determined under Section 4(a)(iii) of the Plan will be paid in one lump sum within 15 days after the later of the Termination Date

or the Release Date, unless otherwise agreed in writing by the Participating Employer and Participant or otherwise required by law.

(c) Death. In the event of the Participant's death prior to receiving all payments due under this Section 4, any unpaid severance compensation will be paid (i) in the same manner as are death benefits under the Participant's basic life insurance coverage provided by the Participant's Participating Employer, and (ii) in accordance with the Participant's beneficiary designation under such coverage. If no such coverage exists, or if no beneficiary designation exists under such coverage as of the date of death of the Participant, the severance compensation will be paid to the Participant's estate in one-lump sum.

5. Health and Welfare Benefits.

(a) Benefits. In addition to the severance compensation provided pursuant to Section 4 of the Plan, a Participant may continue to participate in the following health and welfare benefits provided by his or her Participating Employer during the Severance Period on the same basis as employees of the Participating Employer:

(i) medical;

(ii) dental;

(iii) vision;

(iv) employee assistance;

(v) medical expense reimbursement and dependent care expense reimbursement benefits provided under a cafeteria plan;

(vi) life insurance (basic and supplemental); and

(vii) accidental death and dismemberment insurance (basic and supplemental).

For the purposes of any of the above-described benefits provided under a Participating Employer's cafeteria plan, a Qualifying Termination constitutes a "change in status" or "life event."

(b) Payment and Expiration. Payment of the Participant's portion of contribution or premiums for such selected benefits will be withheld from any severance compensation payments paid to the Participant under this Plan. The Participating Employer's partial subsidization of such coverages will remain in effect until the earlier of:

(i) the expiration or earlier termination of the Employee's Severance Period, after which time the Participant may be eligible to elect to continue coverage of those benefits listed above that are provided under group health

plans in accordance with his or her rights under Section 4980B of the Internal Revenue Code; or

(ii) the Participant's attainment of or eligibility to attain health and welfare benefits through another employer after which time the Participant may be eligible to elect to continue coverage of those benefits listed above that are provided under group health plans in accordance with his or her rights under Section 4980B of the Internal Revenue Code.

6. Stock Options.

(a) Accelerated Vesting. Any portion of any outstanding incentive stock options and nonqualified stock options that would have vested during the 18-month period following the Termination Date had the Participant remained an employee with the Participating Employer during such 18-month period will vest as of the Termination Date. This Section 6(a) applies only to options (i) granted to the Participant under the Company's 1993 Long-Term Executive Compensation Plan, or any successor plan to its 1993 Long-Term Executive Compensation Plan, not less than 6 months prior to his or her Termination Date and (ii) outstanding at the close of business on such Termination Date. The determination of accelerated vesting under this Section 6(a) shall be made as of the Termination Date and shall be based solely on any time-specific vesting schedule included in the applicable stock option agreement without regard to any accelerated vesting provision not related to the Plan in such agreement.

(b) Post-Termination Exercise Period. Subject to the expiration dates and other terms of the applicable stock option agreements, the Participant may elect to have the right to exercise any outstanding incentive stock options and nonqualified stock options granted prior to the Termination Date to the Participant under the Company's 1984 Long-Term Executive Compensation Plan, its 1993 Long-Term Executive Compensation Plan, or any successor plan to its 1993 Long-Term Executive Compensation Plan that are vested as of the Termination Date (or, if later, the Release Date), whether due to the operation of Section 6(a), above, or otherwise, at any time during the Severance Period and, except in the event that the Severance Period terminates pursuant to Section 8(a), for a period up to 3 months after the end of the Severance Period (notwithstanding Section 8). Any such election shall apply to all outstanding incentive stock options and nonqualified stock options, will be irrevocable and must be made in writing and delivered to the Plan Administrator on or before the later of the Termination Date or Release Date. If the Participant fails to make an election, the Participant's right to exercise such options will expire 3 months after the Termination Date.

(c) Stock Option Agreement Amendment. The operation of Sections 6(a) and 6(b), above, are subject to the Participant's execution of an amendment to any affected stock option agreements, if necessary.

7. Outplacement Services. In addition to the benefits described above, career transition counseling or outplacement services may be provided upon the Participant's Qualifying Termination. Such outplacement service will be provided at the Participating Employer's sole discretion. Outplacement services are designed to assist employees in their search for new employment and to facilitate a smooth transition between employment with the Participating Employer and employment with another employer. Any outplacement services provided under this Plan will be provided by an outplacement service chosen by the Participating Employer. The Participant is not entitled to any monetary payment in lieu of outplacement services.

8. Termination of Benefits. Any right of a Participant to severance compensation and benefits under the Plan, and all obligations of his or her Participating Employer to pay any unpaid severance compensation or provide benefits under the Plan will terminate as of the day:

(a) The Participant has engaged in any conduct described in Sections 8(a)(i), 8(a)(ii), 8(a)(iii) or 8(a)(iv), below, as the same may be limited pursuant to Section 8(a)(vi).

(i) During the Severance Period, the Participant's engagement in, ownership of, or control of any interest in (except as a passive investor in less than one percent of the outstanding securities of publicly held companies), or acting as an officer, director or employee of, or consultant, advisor or lender to, any firm, corporation, partnership, limited liability company, institution, business, government agency, or entity that engages in any line of business that is competitive with any Line of Business of the Company, provided that this Section 8(a)(i) shall not apply to the Participant if the Participant's primary place of employment by a subsidiary of the Company as of the Termination Date is in either the State of California or the State of North Dakota.

(ii) During the Severance Period, the Participant employs or solicits for employment by any employer other than a subsidiary of the Company any employee of any subsidiary of the Company, or recommends any such employee for employment to any employer (other than a subsidiary of the Company) at which the Participant is or intends to be (A) employed, (B) a member of the Board of Directors, (C) a partner, or (D) providing consulting services.

(iii) During the Severance Period, the Participant directly or indirectly solicits or enters into any arrangement with any person or entity which is, at the time of the solicitation, a significant customer of a subsidiary of the Company for the purpose of engaging in any business transaction of the nature performed by such subsidiary, or contemplated to be performed by such subsidiary, for such customer, provided that this Section 8(a)(iii) shall only apply to customers for whom the Participant personally provided services while employed by a

subsidiary of the Company or customers about whom or which the Participant acquired material information while employed by a subsidiary of the Company.

(iv) During the Severance Period, the Participant misappropriates or improperly uses or discloses confidential information of the Company and/or its subsidiaries.

(v) If the Participant engaged in any of the conduct described in Sections 8(a)(i), 8(a)(ii), 8(a)(iii) or 8(a)(iv) during or after Participant's term of employment with a Participating Employer, but prior to the commencement of the Severance Period, and such engagement becomes known to the Participating Employer during the Severance Period, such conduct shall be deemed, for purposes of Sections 8(a)(i), 8(a)(ii), 8(a)(iii) or 8(a)(iv) to have occurred during the Severance Period.

(vi) If the Participant is a party to an employment contract with a Participating Employer that contains a covenant or covenants relating to the Participant's engagement in conduct that is the same as or substantially similar to the conduct described in any of Sections 8(a)(i), 8(a)(ii), 8(a)(iii) or 8(a)(iv), and any specific conduct regulated in such covenant or covenants in such employment contract is more limited in scope geographically or otherwise than the corresponding specific conduct described in any of such Sections 8(a)(i), 8(a)(ii), 8(a)(iii) or 8(a)(iv), then the corresponding specific conduct addressed in the applicable Section 8(a)(i), 8(a)(ii), 8(a)(iii) or 8(a)(iv) shall be limited to the same extent as such conduct is limited in the employment contract and the Participating Employer's rights and remedy with respect to such conduct under this Section 8 shall apply only to such conduct as so limited.

(b) The Participant is rehired by his or her Participating Employer or hired by any other subsidiary of the Company in any position other than a position classified as seasonal by such employer.

9. Amendment and Termination. The Plan Sponsor reserves the right to amend the Plan or to terminate the Plan and all benefits hereunder in their entirety at any time.

10. Administration of Plan. The Plan Administrator has the power and discretion to construe the provisions of the Plan and to determine all questions relating to the eligibility of employees of Participating Employers to become Participants in the Plan, and the amount of benefits to which any Participant may be entitled thereunder in accordance with the Plan. Not in limitation, but in amplification of the foregoing and of the authority conferred upon the Plan Administrator, the Plan Sponsor specifically intends that the Plan Administrator have the greatest permissible discretion to construe the terms of the Plan and to determine all questions concerning eligibility, participation and benefits. Any such decision made by the Plan Administrator will be binding on all Employees, Participants, and beneficiaries, and is intended to be subject to the most deferential standard of judicial

review. Such standard of review is not to be affected by any real or alleged conflict of interest on the part of the Plan Administrator. The decision of the Plan Administrator upon all matters within the scope of its authority will be final and binding.

11. Claims Procedures.

(a) Filing a Claim for Benefits. Participants are not required to submit claim forms to initiate payment of benefits under this Plan. To make a claim for benefits, individuals other than Participants who believe they are entitled to receive benefits under this Plan and Participants who believe they have been denied certain benefits under the Plan must write to the Plan Administrator. These individuals and such Participants are hereinafter referred to in this Section 11 as "Claimants." Claimants must notify the Plan Administrator if they will be represented by a duly authorized representative with respect to a claim under the Plan.

(b) Initial Review of Claims. The Plan Administrator will evaluate a claim for benefits under the Plan. The Plan Administrator may solicit additional information from the Claimant if necessary to evaluate the claim. If the Plan Administrator denies all or any portion of the claim, the Claimant will receive, within 90 days after the receipt of the written claim, a written notice setting forth:

(i) the specific reason for the denial;

(ii) specific references to pertinent Plan provisions on which the Plan Administrator based its denial;

(iii) a description of any additional material and information needed for the Claimant to perfect his or her claim and an explanation of why the material or information is needed; and

(iv) that any appeal the Claimant wishes to make of the adverse determination must be in writing to the Plan Administrator within 60 days after receipt of the notice of denial of benefits. The notice must advise the Claimant that his or her failure to appeal the action to the Plan Administrator in writing within the 60-day period will render the Plan Administrator's determination final, binding and conclusive. The notice must further advise the Claimant of his or her right to bring a civil action under Section 502(a) of ERISA following the exhaustion of the claims procedures described herein.

(c) Appeal of Denied Claim and Final Decision. If the Claimant should appeal to the Plan Administrator, the Claimant, or his or her duly authorized representative, must submit, in writing, whatever issues and comments the Claimant or his or her duly authorized representative feels are pertinent. The Claimant, or his or her duly authorized representative, may review and request pertinent Plan documents. The Plan Administrator will reexamine all facts related to the appeal and make a final determination as to whether the denial of benefits is justified under the circumstances. The Plan Administrator will advise the Claimant

in writing of its decision within 60 days of the Claimant's written request for review, unless special circumstances (such as a hearing) require an extension of time, in which case the Plan Administrator will make a decision as soon as possible, but no later than 120 days after its receipt of a request for review.

12. Plan Financing. The benefits to be provided under the Plan will be paid by the applicable Participating Employer, as incurred, out of the general assets of such Participating Employer.

13. General Information. The Plan's records are maintained on a calendar year basis. The Plan Number is 509. The Plan is self-administered and is considered a severance plan.

14. Governing Law. The Plan is established in the State of Missouri. To the extent federal law does not apply, any questions arising under the Plan will be determined under the laws of the State of Missouri.

15. Enforceability; Severability. If a court of competent jurisdiction determines that any provision of the Plan is not enforceable, then such provision shall be enforceable to the maximum extent possible under applicable law, as determined by such court. The invalidity or unenforceability of any provision of the Plan, as determined by a court of competent jurisdiction, will not affect the validity or enforceability of any other provision of the Plan and all other provisions will remain in full force and effect.

16. Withholding of Taxes. The applicable Participating Employer may withhold from any benefit payable under the Plan all federal, state, city or other taxes as may be required pursuant to any law, governmental regulation or ruling. The Participant shall pay upon demand by the Company or the Participating Employer any taxes required to be withheld or collected by the Company or the Participating Employer upon the exercise by the Participant of a nonqualified stock option granted under the Company's 1984 Long-Term Executive Compensation Plan or its 1993 Long-Term Executive Compensation Plan. If the Participant fails to pay any such taxes associated with such exercise upon demand, the Participating Employer shall have the right, but not the obligation, to offset such taxes against any unpaid severance compensation under this Plan.

17. Not an Employment Agreement. Nothing in the Plan gives an Employee any rights (or imposes any obligations) to continued employment by his or her Participating Employer or other subsidiary of the Company, nor does it give such Participating Employer any rights (or impose any obligations) for the continued performance of duties by the Employee for the Participating Employer or any other subsidiary of the Company.

18. No Assignment. The Employee's right to receive payments of severance compensation and benefits under the Plan are not assignable or transferable, whether by pledge, creation of a security interest, or otherwise. In the event of any attempted assignment or transfer contrary to this Section 18, the applicable Participating Employer will have no liability to pay any amount so attempted to be assigned or transferred.

19. Service of Process. The Secretary of the Plan Administrator is designated as agent for service of legal process. Service of legal process may be made upon the Secretary of the Plan Administrator at:

HRB Management, Inc.
Attn: Secretary
4400 Main Street
Kansas City, Missouri 64111

20. Statement of Erisa Rights. As a participant in the Plan, you are entitled to certain rights and protections under ERISA, which provides that all Plan Participants are entitled to:

(a) examine without charge, at the Plan Administrator's office, all documents governing the Plan and a copy of the latest annual report (Form 5500 Series) filed by the Plan with the U.S. Department of Labor and available at the Public Disclosure Room of the Pension and Welfare Benefit Administration;

(b) obtain, upon written request to the Plan Administrator, copies of documents governing the operation of the Plan, copies of the latest annual report (Form 5500 Series) and an updated summary plan description. The Plan Administrator may make a reasonable charge for the copies; and

(c) receive a summary of the Plan's annual financial report if required to be filed for the year. The Plan Administrator is required by law to furnish each participant with a copy of this summary annual report if an annual report is required to be filed for the year.

In addition to creating rights for Plan Participants, ERISA imposes duties upon the people who are responsible for the operation of the Plan. The people who operate your Plan, called "fiduciaries" of the Plan, have a duty to do so prudently and in the interest of you and other Plan Participants and beneficiaries. No one, including your Participating Employer or any other person, may fire you or otherwise discriminate against you in any way to prevent you from obtaining a welfare benefit or exercising your rights under ERISA.

If your claim for a welfare benefit is denied or ignored, in whole or in part, you have the right to know why this was done, to obtain copies of documents relating to the decision without charge, and to appeal any denial, all within certain time schedules.

Under ERISA, there are steps you can take to enforce the above rights. For instance, if you request a copy of plan documents or the latest annual report from the Plan and do not receive them within 30 days, you may file suit in a Federal court. In such a case, the court may require the Plan Administrator to provide the materials to you and pay you up to $110 a day until you receive the materials, unless the materials were not sent because of reasons beyond the control of the Plan Administrator. If you have a claim for benefits that is denied or ignored, in whole or in part, you may file suit in a state or Federal court. If it should happen that you are discriminated against for asserting your rights, you may seek assistance from the U. S. Department of Labor, or you may file suit in

a Federal court. The court will decide who should pay court costs and legal fees. If you are successful, the court may order the person you have sued to pay these costs and fees. If you lose, the court may order you to pay these costs and fees, for example, if it finds your claim is frivolous.

If you have any questions about the Plan, you should contact the Plan Administrator. If you have questions about this statement or about your rights under ERISA, or if you need assistance in obtaining documents from the Plan Administrator, you should contact the nearest office of the Pension and Welfare Benefits Administration, U.S. Department of Labor, listed in your telephone directory or the Division of Technical Assistance and Inquiries, Pension and Welfare Benefits Administration, U.S. Department of Labor, 200 Constitution Avenue N.W., Washington, D.C. 20210. You may also obtain certain publications about your rights and responsibilities under ERISA by calling the publications hotline of the Pension and Welfare Benefits Administration.

IN WITNESS WHEREOF, HRB Management, Inc. adopts this Severance Plan, as amended and restated, effective this 11th day of August, 2003.

HRB MANAGEMENT, INC.

/s/ Mark A, Ernst

Mark A. Ernst
President and Chief Executive Officer

SCHEDULE A

Participating Employers

Block Financial Corporation

Financial Marketing Services, Inc.

Franchise Partner, Inc.

H&R Block Investments, Inc.

H&R Block Services, Inc. and its U.S.-based direct and indirect subsidiaries

HRB Business Services, Inc.

H&R Block Small Business Resources, Inc.

HRB Management, Inc.

HRB Retail Services, Inc.

OLDE Financial Corporation and its U.S.-based direct and indirect subsidiaries,

which subsidiaries include H&R Block Financial Advisors, Inc.

Exhibit 10.24

TERMINATION AGREEMENT

THIS TERMINATION AGREEMENT (the "Agreement") is entered into as of the 16th day of April, 2004, by and between HRB Management, Inc., a Missouri corporation ("HRB"), and Jeffrey G. Brandmaier ("Brandmaier").

ARTICLE ONE

TERMINATION OF EMPLOYMENT

1. Mutual Agreement to Terminate Employment Agreement. HRB and Brandmaier acknowledge and agree that they are parties to an Employment Agreement dated October 8, 2001 (the "Employment Agreement"), and that they desire to terminate Brandmaier's employment under the Employment Agreement by this Agreement. The parties agree, however, to treat Brandmaier's termination of employment as a "Qualifying Termination," as such term is used in the Employment Agreement, for the purpose of determining Brandmaier's severance compensation and benefits. The parties further agree that the termination is not the result of the elimination of the position of Senior Vice President and Chief Information Officer. Such employment and the Employment Agreement will terminate effective as of April 17, 2004, or such earlier date as is mutually agreed upon by the parties in writing (the "Termination Date").

2. Surviving Obligations. Notwithstanding the above, the termination of Brandmaier's employment will not affect the following provisions of the Employment Agreement which, by their express terms as set forth therein, impose continuing obligations on one or more of the parties following termination of the Employment Agreement:

- Article Two, "Confidentiality," Sections 2.01, 2.02
- Article Three, "Non-Hiring; No Conflicts; Noncompetition," Sections 3.01, 3.02, 3.03, and 3.04
- Article Four, "Miscellaneous," Section 4.06.

3. Compensation and Benefits.

(a) Upon Brandmaier's execution of the release agreement attached hereto as Exhibit A (the "Release Agreement") on the Termination Date, HRB will agree to provide the compensation and benefits set forth in Section 1.07(d) of the Employment Agreement as if Brandmaier incurred a "Qualifying Termination," as such term is used in the Employment Agreement, and given the Company and HRB have not eliminated the position of Senior Vice President and Chief Information Officer. Such compensation and benefits are as follows:

(i) HRB will pay to Brandmaier $189,750 (which amount represents an aggregate of one-half of Brandmaier's (A) annual base salary and (B) target short-term incentive compensation for HRB's fiscal year 2004, each determined as of the date of this Agreement) over the 6-month period beginning on the Termination Date in semi-monthly equal installments of $15,812.50 (less required tax withholdings

and elected benefit withholdings). Such payments shall not encompass payment to Brandmaier for any unused vacation or other paid time off accrued as of the Termination Date, payment for which will be made in accordance with HRB's policy as soon as administratively feasible after the Termination Date.

(ii) Brandmaier will remain eligible to participate in those health and welfare plans maintained by HRB offering medical, dental, vision, employee assistance, flexible spending account, life insurance, and accidental death and dismemberment insurance benefits during the 6-month period beginning on the Termination Date on the same basis as employees of HRB, after which Brandmaier may be eligible to continue coverage of those benefits provided under group health plans in accordance with his rights under Section 4980B of the Internal Revenue Code.

(iii) Those portions of any outstanding incentive stock options and nonqualified stock options to purchase shares of Block's common stock granted to Brandmaier by Block ("Stock Options") that are scheduled to vest between the Termination Date and October 18, 2005 (based solely on the time-specific vesting schedule included in the applicable stock option agreement), shall vest and become exercisable as of the Termination Date. For the limited purpose of permitting Brandmaier to exercise the Stock Options that are outstanding and exercisable as of the Termination Date after the Termination Date, HRB agrees to characterize Brandmaier's termination of employment as a termination of employment by HRB without "cause." Brandmaier shall have the option of electing to extend the post-termination-of-employment exercise period of the Stock Options from 3 months after the Termination Date to 3 months after October 18, 2004. Brandmaier may make such election by completing the Stock Option Election Form in the form attached hereto as Exhibit B, no later than April 17, 2004. A list of the Stock Options existing and (A) exercisable as of the date of this Agreement and (B) that will become exercisable as of the Termination Date pursuant to Section 5 of the Release Agreement is attached hereto as Exhibit B.

(iv) All restrictions on any shares of Block's common stock awarded to Brandmaier by Block ("Restricted Shares") that would have lapsed absent a termination of employment in accordance with their terms by reason of time between the Termination Date and October 18, 2005 shall terminate (and shall be fully vested) as of the Termination Date. Any shares unaffected by the operation of this Section 3(a)(iv) shall be forfeited to Block on the Termination Date. A list of the Restricted Shares existing and (A) vested as of the date of this Agreement and (B) to become vested pursuant to Section 5 of the Release Agreement is attached hereto as Exhibit B.

(v) HRB will arrange for Right Management Consultants to provide outplacement services to Brandmaier for the 15-month period beginning on the Termination Date.

(b) In addition to the compensation described in Section 3(a) of this Agreement, HRB shall pay Brandmaier a lump sum payment of $126,500, which amount represents Brandmaier's target short-term incentive compensation for HRB's fiscal year 2004. Such

lump sum payment shall be made to Brandmaier within 30 days after the Termination Date.

(c) The compensation and benefits described in Section 3(a) and (b) of this Agreement will cease and no further compensation and benefits will be provided to Brandmaier under the Release Agreement if Brandmaier violates any of his post-employment obligations as set forth in Sections 2 and 5 of this Agreement.

(d) The parties agree that, in accordance with Section 1.07(e) of the Employment Agreement, HRB shall have no further financial obligations to Brandmaier under the Employment Agreement and no further payments of base salary or other compensation or benefits shall be payable by HRB to Brandmaier, except (i) as required by the express terms of any written benefit plans or written arrangements maintained by HRB and applicable to Brandmaier as of the Termination Date, (ii) as may be required by law, or (iii) as have been mutually agreed upon between the parties in this Agreement.

4. Business Expenses; Commitments. HRB will promptly pay directly, or reimburse Brandmaier for, all business expenses to the extent such expenses are paid or incurred by Brandmaier during the term of the Employment Agreement in accordance with HRB's policy in effect from time to time and to the extent such expenses were reasonable and necessary to the conduct by Brandmaier of HRB's business. During the period from the date of this Agreement through the Termination Date and at all times thereafter, Brandmaier will not initiate, make, renew, confirm or ratify any contracts or commitments for or on behalf of Block, HRB or any other subsidiaries of Block (all such other subsidiaries of Block, collectively "Affiliates" and individually an "Affiliate") without Block's prior written consent.

5. Brandmaier's Responsibilities.

(a) During the period from the date of this Agreement through the Termination Date, Brandmaier will be responsive to, and fully supportive of the management of Block, HRB and Affiliates and will be cooperative with such management in providing information regarding areas of his expertise and experience with Block and HRB. Brandmaier acknowledges that his employment responsibilities may be reduced prior to the Termination Date at HRB's sole discretion.

(b) After the Termination Date, in the event a (i) claim is asserted against Block, HRB or any Affiliate and/or their respective employees, agents, officers, or directors or (ii) a government investigation is commenced with respect to Block, HRB or any Affiliate and/or their respective employees, agents, officers, or directors, Brandmaier will assist and cooperate with Block, HRB and Affiliates in good faith and in such manner as is reasonably possible in developing the information, or providing the statements, documents, or testimony reasonably required to properly respond to or defend such claim or government investigation. HRB will reimburse Brandmaier for his out-of-pocket expenses directly associated with providing such assistance and cooperation. If such assistance and cooperation requires a substantial amount of Brandmaier's time, HRB agrees to reasonably compensate Brandmaier for such time, except in litigation matters where Brandmaier is a named party. In such cases Brandmaier will continue to provide reasonable assistance and cooperation, as requested, and will receive reimbursement for his out-of-pocket expenses

directly associated with providing such assistance and cooperation, but receive no compensation for his time.

(c) Brandmaier will not at any time or in any manner (i) defame Block, HRB, or any Affiliate or their respective past or present directors and employees, (ii) make disparaging statements to the media, or to any employee or contractor of Block, HRB or any other Affiliate, concerning Block, HRB or any Affiliate, their respective past or present directors and employees concerning any matter related to his employment or non-employment, or (iii) do any deliberate act designed primarily to injure the business or reputation of Block, HRB or any Affiliate.

(d) During the time Brandmaier is receiving payments pursuant to the Release Agreement, and for the two-year period immediately following cessation of such payments (the "Covenant Period"), Brandmaier will not engage in, or own or control any interest in (except as a passive investor in less than one percent of the outstanding securities of publicly held companies), or act as an officer, director or employee of, or consultant, advisor or lender to, or otherwise provide any services to, any firm, corporation, partnership, limited liability company, institution, business, government agency, or entity that at any time during the Covenant Period (i) offers tax return preparation and/or tax related products and services (regardless of whether such Tax Services are provided directly by such firm, corporation, partnership, limited liability company, institution, business, government agency, or entity, or by some other party), and (ii) derives more than a de minimis amount of its revenue or earnings from the offer of Tax Services or holds more than a de minimis share of the market for tax preparation services or tax related products and services, as determined by HRB in its sole discretion. The running of the two-year period will be suspended during any period of violation and/or any period of time required to enforce this covenant by litigation or threat of litigation. This non-compete covenant shall supersede any similar non-compete covenant contained in any Stock Option agreement or Restricted Shares agreement; provided, however, that all other restrictive covenants in any Stock Option agreement or Restricted Shares agreement shall not be affected by this Agreement and Block's rights and remedies under any Stock Option agreement or Restricted Shares agreement shall remain the same if Brandmaier violates this non-compete covenant or any of the other restrictive covenants in such agreements (other than the non-compete covenant contained therein).

6. HRB's Responsibilities. Neither HRB, Block, any Affiliates, nor any of their senior executive officers or directors will at any time or in any manner (i) defame Brandmaier, (ii) make disparaging statements to the media or to any employee or contractor of HRB, Block or Affiliates regarding Brandmaier, his performance, character, status or any other personal or professional matter, or (iii) do any deliberate act designed in whole or in part to injure, embarrass or damage Brandmaier's reputation.

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

8. Successors and Assigns. This Agreement and each of its provisions will be binding upon Brandmaier and the heirs, executors, successors and administrators of Brandmaier or his estate and property, and will inure to the benefit of HRB, Block and their successors and assigns. Brandmaier may not assign or transfer to others the obligation to perform his duties hereunder.

9. Specific Performance by Brandmaier. The parties acknowledge that money damages alone will not adequately compensate HRB or Block for breach of any of the covenants and agreements herein and, therefore, in the event of the breach or threatened breach of any such covenant or agreement by Brandmaier, in addition to all other remedies available at law, in equity or otherwise, a wronged party will be entitled to injunctive relief compelling specific performance of (or other compliance with) the terms hereof.

10. Entire Agreement. This Agreement, the Release Agreement (if such Release Agreement is fully executed), and the surviving post-termination obligations of the Employment Agreement constitute the entire agreement and understanding between HRB and Brandmaier concerning the subject matter hereof. No modification, amendment, termination, or waiver of this Agreement will be binding unless in writing and signed by Brandmaier and a duly authorized officer of HRB. Failure of HRB, Block or Brandmaier to insist upon strict compliance with any of the terms, covenants, or conditions hereof will not be deemed a waiver of such terms, covenants, and conditions.

11. Notices. Notices hereunder will be deemed delivered five days following deposit thereof in the United States mail (postage prepaid) addressed to Brandmaier at 3156 Wood View Drive, #308, Kansas City, Kansas, 66103, with a copy to Steven A. Weiss, Schopf & Weiss, 312 West Randolph Street, Chicago, Illinois 60606; and to HRB at 4400 Main Street, Kansas City, Missouri 64111; Attn: Jeffery W. Yabuki, with a copy to Nicholas J. Spaeth, Esq., H&R Block, Inc., 4400 Main Street, Kansas City, Missouri 64111; or to such other address and/or person designated by any party in writing to the other parties.

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

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

/s/ Jeffrey G. Brandmaier

Jeffrey G. Brandmaier

Dated: 4/16/04

HRB Management, Inc.
a Missouri corporation

By: /s/ Jeffery W. Yabuki

Jeffery W. Yabuki
Executive Vice President and Chief Operating Officer

Dated: 4-19-04

EXHIBIT A

RELEASE AGREEMENT

THIS RELEASE AGREEMENT ("this Release Agreement") is entered into as of the 17th day of April, 2004, by and between HRB Management, Inc., a Missouri corporation ("HRB"), and Jeffrey G. Brandmaier ("Brandmaier").

WHEREAS, HRB and Brandmaier are parties to an Agreement dated as of April __, 2004, under which the parties mutually agreed to terminate the Employment Agreement dated October 8, 2001, by and between HRB and Brandmaier (the "Employment Agreement"), and Brandmaier's employment thereunder (the "Termination Agreement").

NOW, THEREFORE, in consideration of the premises and the mutual covenants contained herein, the sufficiency of which is hereby acknowledged, the parties agree as follows:

1. Release by Brandmaier. In consideration of HRB's promise to Brandmaier of the compensation and benefits specified in Section 5 of this Release Agreement and Section 3 of the Termination Agreement, Brandmaier for himself and for his relations, heirs, legal representatives, and assigns unconditionally releases and forever discharges H&R Block, Inc. ("Block"), HRB and each other subsidiary of Block (each such other subsidiary an "Affiliate"), their respective present and past directors, officers, employees, agents, predecessors, successors, and assigns of and from any and all claims, demands, actions, causes of action and suits of any kind whatsoever, whether under federal or state statute, local regulation or at common law or which thereafter arise from any matter, fact, circumstance, event, happening or thing whatsoever occurring or failing to occur prior to the date of this Release Agreement involving Brandmaier's employment by HRB or any Affiliate, including, without limitation, Brandmaier's hiring, compensation earned as of or before the date of this Release Agreement, the termination of Brandmaier's responsibilities as an officer of Block and as a director and/or officer of HRB and each Affiliate, Brandmaier's termination as an employee of HRB, other obligations of Block, HRB or any Affiliate (except for those obligations expressly stated in this Release Agreement, the post-termination provisions of the Employment Agreement or applicable benefit plans), and further including, but not limited to, any claims for race, sex or age discrimination under the Age Discrimination in Employment Act, as amended ("ADEA"), Title VII of the Civil Rights Act of 1964, the 1991 amendments of such Civil Rights Act, the Americans with Disabilities Act, as amended, and all other federal and state statutes and common law doctrines.

2. Release by HRB. HRB for itself and for its present and past directors, officers, employees, predecessors, successors, assigns and Affiliates hereby unconditionally releases and forever discharges Brandmaier, his relations, assigns, heirs, legal representatives, of and from any and all claims, demands, actions, causes of action and suits of any kind whatsoever, whether under federal or state statute, local regulation or at common law or which thereafter arise from any matter, fact, circumstance, event, happening or thing whatsoever occurring or failing to occur prior to the date of this Release

Agreement involving Brandmaier's employment by HRB or any Affiliate, and the performance of his responsibilities under the Employment Agreement.

3. Consideration of Release of ADEA Claims. With regard to the waiver/release of rights or claims under the ADEA, Brandmaier acknowledges and understands that this is a legal document and that he is legally entitled to, and has been offered, a period of twenty-one (21) days (the "Consideration Period") to consider the waiver/release of such rights or claims under this Release Agreement before signing it. After signing this Release Agreement, Brandmaier may revoke the waiver/release of rights or claims under the ADEA by giving written notice ("Revocation Notice") to Jeffery W. Yabuki, 4400 Main Street, Kansas City, Missouri 64111, within seven (7) days after the date of signing (such seven (7) day period, the "Revocation Period" and such date of signing, the "Signing Date"). For such revocation to be effective, the Revocation Notice must be received no later than 5:00 p.m., Kansas City, Missouri time, on the seventh (7th) day after the Signing Date. If Brandmaier provides the Revocation Notice to HRB, this Release Agreement will be null, void and unenforceable by either party, and HRB will have no obligation to make any payments or provide any benefits to Brandmaier hereunder.

4. Acknowledgements. Brandmaier also acknowledges that HRB has advised him to consult with an attorney prior to signing this Release Agreement or before the expiration of the Revocation Period. Brandmaier specifically acknowledges and agrees that either the full twenty-one (21) day Consideration Period has lapsed or he has been offered such twenty-one (21) day Consideration Period but has elected to waive and forego all of the applicable days which have not yet lapsed in such twenty-one (21) day Consideration Period. Brandmaier acknowledges and agrees that upon such consideration he has decided to waive and release any claims he may have under the ADEA, pursuant to the terms of this Release Agreement.

5. Compensation and Benefits. The parties agree that Brandmaier will receive the compensation and benefits from HRB after the Termination Date provided for in Section 3(a) and 3(b) of the Termination Agreement.

6. Termination of Compensation and Benefits. The compensation and benefits described in Section 3(a) and 3(b) of the Termination Agreement will cease and no further compensation and benefits will be provided to Brandmaier under this Release Agreement if Brandmaier violates any of his obligations under Sections 2 and 5 of the Termination Agreement.

7. This Release Agreement shall not affect the rights and obligations of the parties under the Termination Agreement.

8. Successors and Assigns. This Release Agreement and each of its provisions will be binding upon Brandmaier and the heirs, executors, successors, and administrators of Brandmaier or his estate and property, and shall inure to the benefit of HRB, Block and their successors and assigns. Brandmaier may not assign or transfer to others the obligation to perform his duties hereunder.

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

____
Jeffrey G. Brandmaier

Dated: _____________________

HRB Management, Inc.
a Missouri corporation

By: ____
Jeffery W. Yabuki
Executive Vice President and Chief Operating Officer

Dated: _____________________

EXHIBIT B

OPTIONEE STATEMENT H & R BLOCK, INC.

EXERCISABLE AS OF 4/15/2004

JEFFREY G. BRANDMAIER
3156 WOOD VIEW RIDGE DR #308
KANSAS CITY, KS 66103 USA

GRANT DATE	EXPIRATION DATE	PLAN ID	GRANT TYPE	OPTIONS GRANTED OR TRANSFERRED TO	OPTION PRICE	OPTIONS/DATE TRANSFERRED OUT	OPTIONS OUTSTANDING	OPTIONS EXERCISABLE
10/8/2001	10/8/2011	841	Non-Qualified	12,377	$ 39.3400		12,377	4,125 CURRENT 4,126 on 10/08/2004 4,126 on 10/08/2005
10/8/2001	10/8/2011	841	Incentive	7,623	$ 39.3400		7,623	2,541 CURRENT 2,541 on 10/08/2004 2,541 on 10/08/2005
10/8/2001	10/8/2011	841	Restricted	1,000	$ 0.0000		334	0 CURRENT 334 on 10/08/2004
6/30/2002	6/30/2012	841	Restricted	1,276	$ 0.0000		851	0 CURRENT 425 on 06/30/2004 426 on 06/30/2005
6/30/2002	6/30/2012	841	Incentive	2,166	$ 46.1500		0	0 CURRENT
6/30/2002	6/30/2012	841	Non-Qualified	27,834	$ 46.1500		20,001	0 CURRENT 10,002 on 06/30/2004 9,999 on 06/30/2005
6/30/2003	6/30/2013	841	Restricted	3,500	$ 0.0000		2,333	0 CURRENT 1,167 on 06/30/2004 1,166 on 06/30/2005
6/30/2003	6/30/2013	841	Non-Qualified	28,000	$ 43.2500		18,667	0 CURRENT 9,334 on 06/30/2004 9,333 on 06/30/2005
OPTIONEE TOTALS				83,776			62,186	6,666

EXHIBIT C

STOCK OPTION ELECTION FORM

Pursuant to that certain Termination Agreement between HRB Management, Inc. and Jeffrey G. Brandmaier, dated April __, 2004, you have the right to elect to extend the period during which you may exercise the portion of any outstanding incentive stock options and nonqualified stock options exercisable as of your last day of employment that were granted to you prior to your last day of employment under the H&R Block, Inc. 1993 Long-Term Executive Compensation Plan and/or the H&R Block, Inc. 2003 Long-Term Executive Compensation Plan (the "Options") from three months after your Termination Date (as defined in the Plan) to three months after October 18, 2004. Such extension right is subject to the expiration date and other terms of those outstanding options and conditioned on your execution of amendments to affected stock options agreements. If you elect to exercise this right, the election is irrevocable and will apply to all outstanding and exercisable Options. If you do not make a timely election, your right to exercise the outstanding and exercisable Options expires 3 months after your last day of employment ("the Termination Date").

The tax effect of your election to extend the exercise period is that any incentive stock options subject to your election will immediately (as of the date of your election) become nonqualified stock options with different tax consequences upon the exercise of the options. As described in the section entitled "FEDERAL TAX CONSEQUENCES," below, on the exercise of a nonqualified stock option, you will recognize taxable ordinary income equal to the difference between the fair market value of the shares on the exercise date and the exercise price for the shares, while on the exercise of an incentive stock option, no gain is recognized until the shares are sold by you, provided that you dispose of the shares more than two years after the date of grant and more than one year after the transfer of the shares to you. Under current laws, (a) the Company must collect applicable withholding taxes at the time of the exercise of the nonqualified stock option, and (b) no withholding taxes are collected at the time of the exercise of an incentive stock option (although, if the shares are not held prior to sale for the required holding period, you may be required to pay estimated income taxes).

Please indicate whether you wish to exercise your right to extend the post-employment exercise date of the vested portion of your Options by (a) marking the appropriate box below, (b) signing this election form, and (c) returning this election form to Connie Greenfield, Compensation Administrator in the enclosed envelope by April 17, 2004.

[ ] Yes, I elect to extend the post-employment exercise date of my vested Options from 3 months after my Termination Date to 3 months after October 17, 2004, subject to the expiration date and other terms of the agreements governing such Options.

[ ] No, I do not want to extend the post-employment exercise date of my vested Options. I understand that without such extension, if I want to exercise such Options I must do so within 3 months after my Termination Date, subject to the expiration date and other terms of the agreements governing such Options.

____
Signature

Jeffrey G. Brandmaier
____
Name

____
Date

FEDERAL TAX CONSEQUENCES

The federal income tax consequences of incentive stock options and nonqualified stock options are summarized below. The following information is not a definitive explanation of the tax consequences of the options. You should consult with your own tax advisor with respect to the tax consequences inherent in the options, their exercise, and the ownership and disposition of any underlying securities.

Incentive Stock Options

A recipient who is granted an incentive stock option will not recognize any taxable income for federal income tax purposes either on the grant or exercise of the incentive stock option. If the recipient disposes of the shares purchased pursuant to the incentive stock option more than two years after the date of grant and more than one year after the transfer of the shares to him (the required statutory "holding period"), (a) the recipient will recognize long-term capital gain or loss, as the case may be, in an amount equal to the difference between the selling price and the exercise price; and (b) the Company will not be entitled to a deduction with respect to the shares of stock so issued.

If the holding period requirements are not met, a "disqualifying disposition" is deemed to have taken place and any gain realized upon disposition will be taxed as ordinary income equal to the lesser of (i) the excess of the fair market value of the shares at the time of exercise over the exercise price, or (ii) the gain on the sale. The Company will be entitled to a deduction in the year of disposition in an amount equal to the ordinary income recognized by the recipient. Any additional gain will be taxed as short-term or long-term capital gain, depending upon the length of the period the recipient has held the shares.

Except as described below, no gain or loss is recognized by the recipient on the exercise of an incentive stock option through the exchange of previously acquired shares of the

Company. The exchange is treated as a "continuation" of the old shares to the extent of such number of old shares exchanged. The recipient's basis in such shares is the same as his or her basis in the old shares (increased as discussed below when the exchange results in a disqualifying disposition), and the holding period for such shares includes the holding period of the old shares exchanged, except for purposes of determining whether the required statutory holding period is met when the recipient disposes of the newly acquired shares. The remaining shares are treated as newly acquired shares for no consideration. Accordingly, they have zero basis and their holding period begins on the date of exercise. A sale of the incentive stock option shares so acquired before the end of the required statutory holding period results in a disqualifying disposition of the lowest basis shares first.

However, the exercise of an incentive stock option with incentive stock option shares which were not held for the required statutory holding period constitutes a disqualifying disposition of such previously acquired shares. In such case, the recipient's basis in the same number of new incentive stock option shares as old shares which were exchanged is equal to the recipient's basis in such old shares, increased by the amount included as ordinary income as a result of the exchange. For this purpose, when the acquisition of the shares exchanged resulted in an allocation of basis hereunder, the disqualifying disposition is treated as a sale of the shares with the lowest basis first.

In addition to the federal income tax consequences described above, a recipient may be subject to the alternative minimum tax ("AMT"), which is payable only to the extent it exceeds the recipient's regular tax liability. For AMT purposes, the excess of the fair market value of the incentive stock option shares on the date of exercise over the exercise price is a minimum tax adjustment item. If the incentive stock option is exercised and the incentive stock option shares are sold in different calendar years, alternative minimum taxable income is increased by the amount of such excess on the date that the incentive stock option is exercised and alternative minimum taxable income is decreased by the amount of such excess on the date that the incentive stock option shares are sold. However, if the incentive stock option is exercised in the same calendar year that the shares are sold, no adjustment is made to alternative minimum taxable income.

Nonqualified Stock Options

A recipient who is granted a nonqualified stock option will not recognize any taxable income for federal income tax purposes on the grant of the option. Generally, on the exercise of the nonqualified stock option, the recipient will recognize taxable ordinary income equal to the difference between the fair market value of the shares on the exercise date and the exercise price for the shares. The Company generally will be entitled to a deduction on the date of exercise in an amount equal to the ordinary income recognized by the recipient. Upon disposition of the shares purchased pursuant to the nonqualified stock option, the recipient will recognize long-term or short-term capital gain or loss, depending upon the length of the period such recipient has held the shares, in an amount equal to the difference between the amount realized on such disposition and the basis for such shares, which basis will include the amount previously recognized by the recipient as ordinary income.

Where a nonqualified stock option is exercised with previously acquired shares of the Company, there is a "continuation" of the old shares to the extent of such number of shares. Accordingly, upon the exercise of a nonqualified stock option with incentive stock option shares, such number of shares exchanged will continue to be treated as incentive stock option shares. The recipient's basis in such shares will be equal to such recipient's basis in the shares exchanged, and the recipient's holding period will include the holding period for the shares exchanged. The additional shares are subject to the usual rules for the exercise of a stock option for no consideration.

The Company has the right to require the payment by the recipient of any federal, state, local or foreign taxes required by law to be withheld with respect to the exercise of a nonqualified stock option.

EXHIBIT 12

H&R BLOCK, INC.
COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES
(AMOUNTS IN THOUSANDS)

	2004	2003	2002	2001	2000
Pretax income before change in accounting principle	$ 1,164,157	$ 987,077	$ 716,840	$473,078	$412,266
FIXED CHARGES:					
Interest expense	84,556	92,644	116,141	242,551	155,027
Interest portion of net rent expense (a)	79,949	70,574	63,458	59,268	52,263
Total fixed charges	164,505	163,218	179,599	301,819	207,290
Earnings before income taxes and fixed charges	$ 1,328,662	$ 1,150,295	$ 896,439	$774,897	$619,556
Ratio of earnings to fixed charges	8.1	7.0	5.0	2.6	3.0

(a) One-third of net rent expense is the portion deemed representative of the interest factor.

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
1) H&R Block Group, Inc.	Delaware (1)
2) HRB Management, Inc.	Missouri (2)
3) H&R Block Tax and Financial Services Limited	United Kingdom (3)
4) Companion Insurance, Ltd	Bermuda (3)
5) H&R Block Services, Inc.	Missouri (2)
6) H&R Block Tax Services, Inc.	Missouri (4)
7) H&R Block of Dallas, Inc.	Texas (5)
8) HRB Partners, Inc.	Delaware (6)
9) HRB Texas Enterprises, Inc.	Missouri (5)
10) H&R Block and Associates, L.P.	Delaware (7)
11) BWA Advertising, Inc.	Missouri (5)
12) H&R Block (Guam), Inc.	Guam (5)
13) H&R Block Enterprises (Guam), Inc.	Guam (8)
14) H&R Block Canada, Inc.	Canada (5)
15) Financial Stop, Inc.	British Columbia (9)
16) H&R Block Canada Financial Services, Inc.	Canada (9)
17) H&R Block Enterprises, Inc.	Missouri (5)
18) H&R Block Eastern Tax Services, Inc.	Missouri (4)
19) H&R Block Eastern Enterprises, Inc.	Missouri (10)
20) HRB Royalty, Inc.	Delaware (4)
21) H&R Block Limited	New South Wales (11)
22) West Estate Investors, LLC	Missouri (12)
23) Block Financial Corporation	Delaware (2)
24) Option One Mortgage Corporation	California (13)
25) Option One Mortgage Acceptance Corporation	Delaware (14)
26) Option One Mortgage Securities Corp.	Delaware (14)
27) Option One Mortgage Securities II Corp.	Delaware (14)
28) Premier Trust Deed Services, Inc.	California (14)
29) Premier Mortgage Services of Washington, Inc.	Washington (14)
30) H&R Block Mortgage Corporation	Massachusetts (14)
31) Option One Direct Insurance Agency, Inc.	California (14)
32) Woodbridge Mortgage Acceptance Corporation	Delaware (14)
33) Option One Loan Warehouse Corporation	Delaware (14)
34) Option One Advance Corporation	Delaware (14)
35) Companion Mortgage Corporation	Delaware (13)
36) Franchise Partner, Inc.	Nevada (13)
37) NCS Mortgage Services, L.L.C.	Georgia (15)
38) National Consumer Services Corp. II, L.L.C.	Georgia (15)
39) HRB Financial Corporation	Michigan (13)
40) H&R Block Financial Advisors, Inc.	Michigan (16)

41) OLDE Discount of Canada..	Canada (17)
42) H&R Block Insurance Agency of Massachusetts, Inc......................	Massachusetts (17)
43) HRB Property Corporation..	Michigan (16)
44) HRB Realty Corporation..	Michigan (16)
45) 420 South Garden, Inc...	Florida (18)
46) 44 East Central, Inc..	Florida (18)
47) 4240 Hunt Road, Inc...	Ohio (18)
48) 4230 West Green Oaks, Inc...	Michigan (18)
49) HRB Equipment Corporation...	Michigan (16)
50) Financial Marketing Services, Inc.....................................	Michigan (13)
51) 2430472 Nova Scotia Co..	Nova Scotia (19)
52) H&R Block Digital Tax Solutions, Inc..................................	Delaware (13)
53) RSM McGladrey Business Services, Inc..................................	Delaware (2)
54) RSM McGladrey, Inc..	Delaware (20)
55) Toback, Inc...	Arizona (21)
56) RSM McGladrey Financial Process Outsourcing, L.L.C....................	Minnesota (22)
57) Birchtree Financial Services, Inc.....................................	Oklahoma (21)
58) Birchtree Insurance Agency, Inc.......................................	Missouri (25)
59) Pension Resources, Inc..	Illinois (21)
60) FM Business Services, Inc...	Delaware (21)
61) O'Rourke Consulting, LLC..	California (22)
62) O'Rourke Career Connections, LLC......................................	California (23)
63) Credit Union Jobs, LLC..	California (24)
64) PDI Global, Inc.	Delaware (20)
65) C.W. Amos Business Services, Inc.	Delaware (20)
66) RSM Equico, Inc...	Delaware (20)
67) RSM Equico Capital Markets, LLC.......................................	Delaware (26)
68) Equico, Inc...	California (27)
69) Equico Europe Limited...	United Kingdom (27)
70) RSM Equico Canada, Inc..	Canada (27)
71) RSM McGladrey Business Solutions, Inc.................................	Delaware (20)
72) RSM McGladrey Employer Services, Inc..................................	Georgia (28)
73) RSM Employer Services Agency, Inc.....................................	Georgia (29)
74) RSM Employer Services Agency of Florida, Inc..........................	Florida (29)
75) MyBenefitSource.com Services, LLC.....................................	Georgia (30)
76) HRB Retail Services, Inc..	Delaware (2)
77) H&R Block Small Business Resources, Inc...............................	Delaware (2)

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 HRB Management, Inc.

(4) Wholly owned subsidiary of H&R Block Services, Inc.

(5) Wholly owned subsidiary of H&R Block Tax Services, Inc.

(6) Wholly owned subsidiary of H&R Block of Dallas, Inc.

(7) Limited partnership in which HRB Texas Enterprises, Inc. is a 1% general partner and HRB Partners, Inc. is a 99% limited partner

(8) Wholly owned subsidiary of H&R Block (Guam), Inc.

(9) Wholly owned subsidiary of H&R Block Canada, Inc.

(10) Wholly owned subsidiary of H&R Block Eastern Tax Services, Inc.

(11) Wholly owned subsidiary of HRB Royalty, Inc.

(12) Limited liability company in which H&R Block Tax Services, Inc. has a 100% membership interest.

(13) Wholly owned subsidiary of Block Financial Corporation

(14) Wholly owned subsidiary of Option One Mortgage Corporation

(15) Limited liability company in which Block Financial Corporation has a 96.25% membership interest and Companion Mortgage Corporation has a 3.75% membership interest

(16) Wholly owned subsidiary of HRB Financial Corporation

(17) Wholly owned subsidiary of H&R Block Financial Advisors, Inc.

(18) Wholly owned subsidiary of OLDE Realty Corporation

(19) Wholly owned subsidiary of Financial Marketing Services, Inc.

(20) Wholly owned subsidiary of RSM McGladrey Business Services, Inc.

(21) Wholly owned subsidiary of RSM McGladrey, Inc.

(22) Limited liability company in which RSM McGladrey, Inc. has a 100% membership interest

(23) Limited liability company in which RSM McGladrey, Inc. owns a 50% membership interest and the California Credit Union League owns a 50% membership interest

(24) Limited liability company in which O'Rourke Consulting, LLC has a 50% membership interest and Credit Union Jobs, Inc. has a 50% membership interest

(25) Wholly owned subsidiary of Birchtree Financial Services, Inc.

(26) Limited liability company in which RSM Equico, Inc. has a 100% membership interest.

(27) Wholly owned subsidiary of RSM Equico, Inc.

(28) Company in which RSM McGladrey Business Services, Inc. owns approximately 87% of the issued and outstanding stock.

(29) Wholly owned subsidiary of RSM McGladrey Employer Services, Inc.

(30) Limited liability company in which RSM McGladrey Employer Services, Inc. has a 100% membership interest.

Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of H&R Block, Inc.:

We consent to the incorporation by reference in the registration statement on Form S-3 (No. 333-33655) of Block Financial Corporation and in the registration statements on Form S-3 (No. 333-33655-01) and Form S-8 (Nos. 333-42143, 333-42736, 333-42738, 333-42740, 333-56400, 333-70400, 333-70402, 333-106710) of H&R Block, Inc. of our report dated June 9, 2004, with respect to the consolidated financial statements of H&R Block, Inc. as of and for the year ended April 30, 2004, and of our report dated June 9, 2004 related to the financial statement schedule, which are included in this annual report on Form 10-K.

Our report dated June 9, 2004 contains an explanatory paragraph stating that as discussed in Note 1 to the consolidated financial statements, the Company changed its method of accounting to adopt Staff Accounting Bulletin No. 105, "Application of Accounting Principles to Loan Commitments," Emerging Issues Task Force Issue No. 00-21, "Revenue Arrangements with Multiple Deliverables" and Statement of Financial Accounting Standards No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure" during the year ended April 30, 2004.

/s/ KPMG LLP

Kansas City, Missouri
July 2, 2004

Exhibit 23.2

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statement on Form S-3 (No. 333-33655) of Block Financial Corporation and in the Registration Statements on Form S-3 (No. 333-33655-01) and Form S-8 (Nos. 33-64147, 333-42143, 333-42736, 333-42740, 333-56400, 333-70400, 333-70402, 333-106710) of H&R Block, Inc. of our report dated June 10, 2003 relating to the financial statements of H&R Block, Inc., which appears in this Annual Report on Form 10-K. We also consent to the incorporation by reference of our report dated June 10, 2003 relating to the financial statement schedule, which appears in this Annual Report on Form 10-K.

/s/ PricewaterhouseCoopers LLP
Kansas City, Missouri
July 2, 2004

Exhibit 31.1

CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

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

1. I have reviewed this annual report on Form 10-K of H&R Block, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: June 29, 2004

/s/ Mark A. Ernst

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

Exhibit 31.2

CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Melanie K. Coleman, Chief Financial Officer, certify that:

1. I have reviewed this annual report on Form 10-K of H&R Block, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: June 29, 2004

/s/ Melanie K. Coleman

Melanie K. Coleman
Vice President and Corporate Controller
H&R Block, Inc.

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the annual report of H&R Block, Inc. (the "Company") on Form 10-K for the fiscal year ending April 30, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Mark A. Ernst, Chief Executive Officer of the Company, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Mark A. Ernst

Mark A. Ernst
Chief Executive Officer
H&R Block, Inc.
June 29, 2004

Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the annual report of H&R Block, Inc. (the "Company") on Form 10-K for the fiscal year ending April 30, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Melanie K. Coleman, Principal Accounting Officer of the Company, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Melanie K. Coleman

Melanie K. Coleman
Principal Accounting Officer
H&R Block, Inc.
June 29, 2004