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

FORM 10-K

(Mark One)

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED: APRIL 30, 1999

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

Commission File Number: 1-6089

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

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

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

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

| Title of each class | Name of each exchange on which registered |
|---|---|
| Common Stock, without par value | New York Stock Exchange<br>Pacific Stock Exchange |

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

Common Stock, without par value
(Title of Class)

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

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

The aggregate market value of the voting stock held by non-affiliates of the registrant, computed by reference to the price at which the stock was sold on June 1, 1999, was $4,508,263,083.

Number of shares of registrant's Common Stock, without par value, outstanding on June 1, 1999: 97,640,766.





DOCUMENTS INCORPORATED BY REFERENCE

Certain specified portions of the registrant's annual report to security holders for the fiscal year ended April 30, 1999, are incorporated herein by reference in response to Part I, Item 1, and Part II, Items 5 through 7 and Item 8, and certain specified portions of the registrant's definitive proxy statement filed within 120 days after April 30, 1999, are incorporated herein by reference in response to Part III, Items 10 through 13, inclusive.

# PART I

## ITEM 1. BUSINESS.

### GENERAL DEVELOPMENT OF BUSINESS

H&R Block, Inc. is a corporation that was organized in 1955 under the laws of the State of Missouri (the "Company"). It is the parent corporation in a two-tier holding company structure following a 1993 corporate restructuring. The second-tier holding company is H&R Block Group, Inc., a Delaware corporation and the direct or indirect owner of the operating subsidiaries that provide tax and financial services to the general public principally in the United States, but also in Canada, Australia, the United Kingdom and other foreign countries. Approximately 81% of the consolidated revenues of the Company in fiscal year 1999 were generated by subsidiaries involved in tax return preparation, electronic filing of income tax returns and other tax-related services. The Company's subsidiaries also originate, purchase, service, sell and securitize mortgages, offer personal productivity software, purchase participation interests in refund anticipation loans made by a third-party lender, offer accounting, tax and consulting services to business clients and provide financial products and services.

Developments during fiscal year 1999 within U.S. Tax Operations, International Tax Operations, Mortgage Operations and Business Services are described in the section below entitled "Description of Business."

Effective September 1, 1998, Mark A. Ernst became Executive Vice President and Chief Operating Officer of the Company, a newly created position. Mr. Ernst was formerly a senior vice president for American Express Company. As the Executive Vice President and Chief Operating Officer, Mr. Ernst's responsibilities during fiscal year 1999 included oversight of the Company's U.S. and international tax operations, its software operations, mortgage operations and the development of new financial products and services.

During the 1999 fiscal year, subsidiaries of the Company acquired the stock or non-attest assets of six regional accounting firms and several smaller local accounting firms. Shortly after the 1999 fiscal year end, the Company acquired the non-attest assets of another regional accounting firm, bringing the total to seven, and thereafter announced that it had signed an agreement to acquire substantially all of the non-attest assets of McGladrey & Pullen, LLP ("M&P"), the nation's seventh largest accounting and consulting firm. All of these transactions are described below in the "Business Services" portion of the section entitled "Description of Business." The Company also acquired a conventional mortgage company based near Boston, Massachusetts, and a subsidiary of the Company acquired a full-service investment firm located in Kansas City, Missouri. The descriptions of these two acquisitions are respectively set forth in the "Mortgage Operations" and "Other Business" portions of the section below entitled "Description of Business."





On July 21, 1999, the Company announced that it is evaluating strategic alternatives for Option One, including a possible sale or joint venture with a business partner, and that it remains committed to the retail mortgage business. There are no assurances that any transaction will take place, and any transaction will be subject to the approval of the Company's Board of Directors.

On January 29, 1999, Block Financial Corporation, an indirect subsidiary of the Company, completed the sale of its WebCard Visa credit card portfolio to Providian National Bank in San Francisco. The credit card business was listed as a separate business segment in the Company's Form 10-K for the fiscal year ended April 30, 1998. The Company recorded a $20.9 million loss, net of taxes, on the transaction.

During the fiscal year ended April 30, 1999, the Company was not involved in any bankruptcy, receivership or similar proceedings or any material reclassifications, mergers or consolidations, and the Company did not acquire or dispose of any material amount of assets during such year otherwise than in the ordinary course of business.

The information contained in this Form 10-K and the exhibits hereto may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Such statements are based upon current information, expectations, estimates and projections regarding the Company, the industries and markets in which the Company operates, and management's assumptions and beliefs relating thereto. Words such as "will," "plan," "expect," "remain," "intend," "estimate," "approximate," and variations thereof and similar expressions are intended to identify such forward-looking statements. These statements speak only as of the date on which they are made, are not guarantees of future performance, and involve certain risks, uncertainties and assumptions that are difficult to predict. Therefore, actual outcomes and results could materially differ from what is expressed, implied or forecast in such forward-looking statements. Such differences could be caused by a number of factors including, but not limited to, the uncertainty of the satisfaction of all closing conditions set forth in the agreement to acquire substantially all of the non-attest assets of M&P and the completion of the M&P transaction; the uncertainty of the entry by the Company into any agreement regarding any sale, joint venture, or other strategic action involving Option One; the uncertainty regarding the completion of any transaction involving Option One; the uncertainty of laws, legislation, regulations, supervision and licensing by Federal, state and local authorities and their impact on any proposed or possible transactions and the lines of business in which the Company's subsidiaries are involved; year 2000 readiness of the Company and external parties; unforeseen compliance costs; changes in economic, political or regulatory environments; changes in competition and the effects of such changes; the inability of the Company's subsidiaries to successfully expand the national accounting practice, the retail mortgage business, the H&R Block Financial Center operations, other financial planning and investment services operations, and the H&R Block Premium segment and other aspects of the tax business; the inability to implement the Company's strategies with respect to such expansion and other strategies; termination by either party of the license agreement between H&R Block Tax Services, Inc. and Sears, Roebuck & Co.; changes in management and management strategies; the Company's inability to successfully design, create, modify and operate its computer systems and networks; litigation involving the Company; and risks described from time to time in reports and registration statements filed by the Company and its subsidiaries with the Securities and Exchange Commission. Readers should take these factors and risks into account in evaluating any such forward-looking statements. The Company undertakes no obligation to update publicly or revise any forward-looking statements, whether as a result of new information, future events or otherwise.





FINANCIAL INFORMATION ABOUT INDUSTRY SEGMENTS

The information required by Item 101(b) of Regulation S-K relating to financial information about industry segments is contained in the Notes to Consolidated Financial Statements in the Company's annual report to security holders for the fiscal year ended April 30, 1999, and is hereby incorporated herein by reference.

NUMBER OF EMPLOYEES

The Company, including its direct and indirect wholly owned subsidiaries, has approximately 4,200 regular full-time employees. The highest number of persons employed by the Company during the fiscal year ended April 30, 1999, including seasonal employees, was approximately 86,500.

DESCRIPTION OF BUSINESS

U.S. TAX OPERATIONS

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

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

Taxpayers Served. H&R Block served approximately 16,542,000 taxpayers in the United States during fiscal year 1999, an increase from 15,835,000 taxpayers served in fiscal year 1998 and 15,625,000 taxpayers served in fiscal 1997. "Taxpayers served" includes taxpayers for whom H&R Block prepared income tax returns as well as taxpayers for whom Block provided only electronic filing services.

Tax Return Preparation. During the 1999 income tax filing season (January 2 through April 30), H&R Block offices in the United States prepared approximately 15,761,000 individual income tax returns, compared to the preparation of 14,838,000 such returns in fiscal year 1998 and 14,302,000 such returns in fiscal year 1997. These returns constituted about 13.7% of an IRS estimate of total individual income tax returns filed as of April 30, 1999. The following table shows the approximate number of income tax returns prepared at H&R Block offices during the last five tax filing seasons:





| | Tax Season Ended April 30 (in thousands) | | | | |
|---|---|---|---|---|---|
| | 1995 | 1996 | 1997 | 1998 | 1999 |
| Returns Prepared | 12,918 | 13,360 | 14,302 | 14,838 | 15,761 |

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

H&R Block Premium. In addition to its regular offices, H&R Block offers tax return preparation services at H&R Block Premium offices in the United States. Appealing to taxpayers with more complicated returns, H&R Block Premium stresses the convenience of appointments, year-round tax service from the same preparer and private office interviews. The number of H&R Block

Premium offices increased in fiscal year 1999 to 617, as compared to 598 in fiscal year 1998 and 581 in fiscal 1997. In fiscal 1999, the number of H&R Block Premium clients increased to approximately 719,000, compared to approximately 647,000 in fiscal year 1998 and approximately 666,000 in fiscal year 1997.

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

An eligible electronic filing customer may also apply for a refund anticipation loan ("RAL") at an H&R Block office. Under the 1999 RAL program, Tax Services' electronic filing customers who meet certain eligibility criteria are offered the opportunity to apply for loans from Household Bank in amounts based upon the customers' anticipated Federal income tax refunds. Income tax return information is simultaneously transmitted by H&R Block to the IRS and the lending bank. Within a few days after the date of filing, a check in the amount of the loan, less the bank's transaction fee and H&R Block's tax return preparation fee (and, where applicable, electronic filing fee), is received by the RAL customer. The IRS then directly deposits the participating customer's actual Federal income tax refund into a designated account at the bank in order for the loan to be repaid.

H&R Block also offers an electronic refund service pursuant to which an eligible electronic filing service customer's income tax refund is directly deposited into a bank account at a bank (Tax Services used Household Bank in 1999) within approximately three weeks after the tax return is electronically filed, and a check is thereafter issued to the taxpayer in the amount of the refund, less the bank's transaction fee and H&R Block's tax return preparation fee (and, where applicable, electronic filing fee).

H&R Block filed approximately 11,139,000 U.S. tax returns electronically in fiscal 1999, compared to 9,423,000 in fiscal 1998 and 7,279,000 in fiscal 1997. Approximately 2,811,000 refund





anticipation loans were processed in fiscal 1999 by H&R Block, compared to 2,420,000 in fiscal 1998 and 2,573,000 in fiscal 1997. Approximately 1,916,000 electronic refunds were processed in fiscal 1999 by H&R Block, compared to 1,855,000 in fiscal 1998 and 1,871,300 in fiscal 1997.

In 1999, H&R Block offered a service to transmit state income tax returns electronically to state tax authorities in 38 states and the District of Columbia (compared to 35 states and the District of Columbia in fiscal 1998 and 34 states and the District of Columbia in fiscal 1997) and plans to continue to expand this program as more states make this filing alternative available to their taxpayers.

Income Tax Courses. H&R Block offers to the public income tax return preparation courses that teach taxpayers how to prepare their own income tax returns, as well as provide H&R Block with a source of trained income tax return preparers. During the 1999 fiscal year, 159,216 students enrolled in H&R Block's basic and advanced income tax courses in the United States, compared to 130,884 students during fiscal year 1998 and 111,428 students during fiscal year 1997.

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

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

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

In fiscal year 1999, H&R Block also operated 729 offices in department stores in the United States, including 723 offices in Sears, Roebuck & Co. stores operated as "Sears Income Tax Service by H&R Block." During the 1999 tax season, the Sears' facilities constituted approximately eight percent of the tax office locations of H&R Block. Tax Services is a party to a license agreement with Sears relating to Tax Service's operation in Sears locations throughout the United States. Such license agreement expires on December 31, 2004, subject to termination rights of both parties for a limited period of time after each tax season. Tax Services views the operations under its relationship with Sears to date as satisfactory and such relationship to be amicable in general, although it is in negotiations with Sears regarding a dispute over commissions owed to Sears under such agreement.

On April 15, 1999, there were 8,923 H&R Block offices in operation in the United States compared to 8,780 offices in operation on April 15, 1998, and 8,554 offices in operation on April 15,





1997. Of the 8,923 offices, 4,880 were owned and operated by Tax Services (compared to 4,640 in fiscal year 1998 and 4,483 in fiscal year 1997) and 4,043 were owned and operated by independent franchisees (compared to 4,140 in fiscal 1998 and 4,071 in fiscal 1997). Of such franchised offices in fiscal 1999, 2,698 were operated by "satellite" franchisees of Tax Services (described below), 796 were operated by "major" franchisees (described below) and 549 were operated by satellite franchisees of major franchisees.

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

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

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

From time to time, Tax Services has acquired the operations of existing franchisees and other tax return preparation businesses, and it will continue to do so if future conditions warrant such acquisitions and satisfactory terms can be negotiated. In fiscal year 1999, Tax Services acquired 69 tax offices in the United States, including 26 H&R Block franchise offices and 43 offices of other tax businesses.

Participation Interests in RALs. Block Financial Corporation ("BFC") is party to a July 1996 agreement with Household Bank ("Household") to purchase a participation interest in refund anticipation loans provided by Household to H&R Block tax customers. See "Electronic Filing" under "Tax Operations," above. In the 10-year agreement, BFC agreed to purchase an initial 40% participation interest in such RALs, which interest would be increased to nearly 50% in specified circumstances. In fiscal 1999, the participation interest was increased to 49.9% in Company-owned RALs, and BFC began participating in 25% of major franchise RALs (previously there was no such participation). BFC's purchases of the participation interests are financed through short-term borrowing. BFC bears all of the risks associated with its interests in the RALs. BFC's total RAL revenue in fiscal year 1999 was approximately $90.2 million (compared to revenue of $53.3 million in fiscal 1998 and $54.5 million in fiscal 1997), generating approximately $19.1 million in pretax profits (compared to $6.4 million in pretax profits in fiscal year 1998 and $8.1 million in pretax profits in fiscal year 1997). The increase in revenues and pretax profits resulted from a 40.4% increase in the number of RAL participations over last year due to the increase in the participation percentage.





Software Products. BFC develops and markets the Kiplinger TaxCut(R) tax preparation software package, as well as markets Kiplinger's Home Legal Advisor (SM), Kiplinger's Small Business Attorney(R), Kiplinger's NetWealth (SM), Kiplinger's WILLPower (SM) and Names & Dates(R) software products. As a result of the increase in sales of TaxCut's final edition in fiscal year 1999, BFC believes that its share of retail sales in the income tax return preparation software market is greater than 30%.

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

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

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

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

In addition, HRB Royalty, Inc., claims ownership of the following unregistered service marks and trademarks: America's Largest Tax Service and Nation's Largest Tax Service.

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

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

| | |
|---|---|
| Audit Buster | Financial Finder |
| B and Design | Names & Dates |
| Block Financial | Small Business Attorney |
| Block Financial and Design | TaxCut |
| Conductor | Web |
| Conductor and Baton Design | WebBank |
| Conductor and Hand-Held Baton Design | WebPay |
| Conductor Card Review | |





BFC also claims ownership of the following unregistered service marks and trademarks:

| | |
|---|---|
| CONDUCTOR.COM | WebAccount |
| DittoCard | WebBroker |
| Download Depot | WebBuyer |
| Fast Lane | WebCheck |
| Home Legal Advisor | WebChecking |
| Your Complete Personal Legal Resource | WebQuote |
| Solve Your Everyday Business Problems | NetWealth |
| The Easy Way to Financial Success | NetWealth and Design |
| The Fastest and Easiest Way To Do Your Taxes | WILLPower |

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

At the time BFC sold the credit card portfolio in January 1999, it granted to Providian National Bank a non-exclusive, non-transferable and royalty-free licenses to use the mark "Conductor and Baton Design" for up to two years, the patent "SYSTEM FOR ON-LINE FINANCIAL SERVICES USING DISTRIBUTED OBJECTS" for a period of ten years, and the mark "CONDUCTOR.COM" perpetually.

Competitive Conditions. The tax return preparation and electronic filing businesses are highly competitive. There are a substantial number of tax return preparation firms and accounting firms that offer tax return preparation services. Many tax return preparation firms and many firms not otherwise in the tax return preparation business are involved in providing electronic filing and refund anticipation loan services to the public. Commercial tax return preparers and electronic filers are highly competitive with regard to price, service and reputation for quality. Tax Services believes that, in terms of the number of offices and tax returns prepared, it is the largest tax return preparation firm in the United States. Tax Services also believes that in terms of the number of offices and tax returns electronically filed in fiscal year 1999, it is the largest provider of electronic filing services in the United States.

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

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

The Company believes that the Federal legislation regulating commercial tax return preparers has not had and will not have a material adverse effect on the operations of H&R Block. In addition,





no present state statutes of this nature have had a material adverse effect on the business of H&R Block. However, the Company cannot predict what the effect may be of the enactment of new statutes or adoption of new regulations.

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

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

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

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

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

As noted above under "Owned and Franchised Offices," many of the income tax return preparation offices operating in the United States under the name

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





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

INTERNATIONAL TAX OPERATIONS

Generally. This reportable operating segment provides the preparation of tax returns, electronic filing and related services to the general public in Canada, Australia and the United Kingdom. Tax preparation of U.S. tax returns and related services are offered by franchisees in ten countries. The electronic filing of U.S. income tax returns is offered at franchised offices located in Europe, and the electronic filing of Australian, Canadian and United Kingdom income tax returns is offered at H&R Block offices in Australia, Canada and the United Kingdom, respectively.

The returns prepared at 1,466 H&R Block offices in countries outside of the United States constituted 12.8% of the total returns prepared by H&R Block in the last fiscal year (compared to 13.8% in fiscal year 1998 and 15.2% in fiscal year 1997).

Canadian Operations. H&R Block Canada, Inc. ("Block Canada") and its franchisees prepared approximately 1,858,000 Canadian regular and discounted returns filed with Revenue Canada during the 1999 income tax filing season, compared with 1,945,000 Canadian returns prepared during fiscal year 1998 and 2,156,000 Canadian returns prepared in fiscal 1997. The number of offices operated by H&R Block in Canada increased in fiscal year 1999 to 1,032 from 928 in fiscal year 1998 and 1,021 in 1997. Of the 1,032 offices in Canada, 574 were owned and operated by Block Canada and 458 were owned and operated by franchisees. H&R Block operated 164 offices in department stores in Canada in fiscal year 1999, including 86 offices in Sears' facilities.

Block Canada and its franchisees offer a refund discount ("CashBack") program to their customers in Canada. The procedures which H&R Block must follow in conducting the program are specified by Canadian law. In accordance with current Canadian regulations, if a customer's tax return indicates that such customer is entitled to a tax refund, a check is issued by H&R Block to the customer for an amount which is equal to the sum of (i) 85% of that portion of the anticipated refund which is less than or equal to $300 and (ii) 95% of that portion of the refund in excess of $300. The customer assigns to H&R Block the full amount of the tax refund to be issued by Revenue Canada. The refund check is then sent by Revenue Canada directly to H&R Block and deposited by H&R Block in its bank account. In accordance with the law, the discount is deemed to include both the tax return preparation fee and the fee for tax refund discounting. This program is financed by short-term borrowing. The number of returns discounted under the CashBack program decreased to approximately 516,000 in fiscal year 1999 from 532,000 in fiscal year 1998 and 583,000 in fiscal year 1997. Block Canada also provides check-cashing and other low-end financial services through its subsidiary Cashplan Systems Inc. Operating under the name "CashPlan," this service complements the CashBack service.





In some parts of Canada, CashBack offices have been separated from regular tax return preparation offices. Operating under the "Financial Stop" name (without H&R Block signage), 217 offices offered the CashBack refund discounting services, as well as the preparation of simple tax returns and check cashing services, as compared to 147 offices in 1998.

Australian Operations. The number of returns prepared by H&R Block Limited, the Company's indirect subsidiary in Australia, and by franchisees in Australia, increased to approximately 428,000 in fiscal year 1999 from 406,000 in fiscal 1998 and 403,000 in fiscal year 1997. The number of offices operated by H&R Block in Australia in fiscal year 1999 was 347, compared to 334 offices operated in fiscal 1998 and 302 offices operated in fiscal 1997. Of the 347 offices, 213 were owned and operated by H&R Block Limited and 134 were franchised offices. The tax season in Australia begins in July and ends in October.

United Kingdom Operations. The Tax Team Limited, a Horsham-based firm acquired by an indirect subsidiary of the Company, provides tax return preparation services in the United Kingdom. The number of offices operated by the Tax Team in fiscal year 1999 decreased to 26 from 28 in fiscal year 1998.

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

MORTGAGE OPERATIONS

Generally. The mortgage operations reportable segment is primarily engaged in the origination, purchase, servicing, securitization and sale of conforming and nonconforming mortgage loans in the United States. Conforming mortgages are those that may be offered through government sponsored loan agencies. Nonconforming mortgages are those that may not be offered through government-sponsored loan agencies, and typically involve borrowers with impaired credit, who have substantial equity in the property which will be used to secure the loan. Mortgage origination services were offered in fiscal year 1999 through a network of mortgage brokers in 49 states and through H&R Block Financial Center offices in 4 states.

Option One Mortgage Corporation. Option One, based in Irvine, California, has a network of more than 5,000 mortgage brokers in 49 states. Option One originates and purchases loans through both wholesale and retail channels, and originated approximately $1.9 billion in mortgage loans in fiscal year 1998 after its acquisition. The average Option One loan during fiscal year 1999 had a $108,000 principal balance, compared to $99,800 in fiscal 1998, and was secured by a first lien on a single family residence. During fiscal 1999, Option One sold or securitized approximately $3.6 billion of mortgage loans, as compared to $1.8 billion sold in fiscal 1998 after its acquisition. At the end of fiscal year 1999, Option One's servicing portfolio was 65,300 loans totaling more than $6.5 billion, compared to 42,800 loans totaling $4.3 billion in fiscal 1998.

Wholesale originations and purchases represented the substantial majority of Option One's total loan production. Wholesale loan originations involve a broker who assists the borrower in completing the loan application, the gathering of necessary information and identifying a lender that offers a loan product which is best suited to the borrower's financial needs. Brokers are free to submit an application to one or more nonconforming lenders, such as Option One. Upon receipt of an application from a broker,





Option One's account executives facilitate the processing and underwriting of the loan. Based upon this review, Option One advises the broker whether the loan application meets with Option One's underwriting guidelines and product description by issuing a loan approval or denial, and in some cases issues a "conditional approval," which requires the submission of additional information or clarification.

On November 1, 1998, H&R Block Mortgage Company, L.L.C. ("Block Mortgage"), formerly Block Mortgage Company, L.L.C., merged with and into Option One. Operating under the name H&R Block Mortgage, this division focuses on retail origination, and offers mortgage products, including VA, FHA and conventional mortgages. Retail originations are made pursuant to the direct solicitation of the borrower and do not involve a broker.

Option One sells virtually all of its loan production through a combination of securitization and bulk sales of whole loans to institutional purchasers. Option One completed two securitizations of nonconforming mortgage loans during fiscal 1999. A $1 billion asset backed security issue closed in January 1999 and a $801.1 million issue closed in April 1999.

On July 21, 1999, the Company announced that it is evaluating strategic alternatives for Option One, including a possible sale or joint venture with a business partner, and that it remains committed to the retail mortgage business. There are no assurances that any transaction will take place, and any transaction will be subject to the approval of the Company's Board of Directors.

Assurance Mortgage Corporation of America. Acquired on March 5, 1999 by a subsidiary of the Company, Assurance Mortgage Corporation of America ("AMCA") is New England's largest independent mortgage broker for conventional and government loans and is licensed throughout the United States. AMCA closed approximately $1.3 billion in conventional retail loans in 1998. AMCA sold the majority of these loans through the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation as well as other major institutional investors. AMCA operates under its current name. AMCA has 11 retail offices in Massachusetts, Rhode Island and New Hampshire.

Companion Mortgage Corporation. The sole business activity of Companion Mortgage Corporation ("Companion"), a wholly owned subsidiary of BFC, consists of purchasing, investing in, securitizing and selling nonconforming fixed and adjustable-rate mortgage loans, primarily purchase money loans, refinancings and home equity borrowings. The purchased loans are originated through retail, wholesale and correspondent lending programs conducted through National Consumer Services Corp., L.L.C. (a firm which as of March 31, 1999 is majority-owned by BFC) or other mortgage loan originators.

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

Companion and Block Mortgage Finance completed two securitizations of nonconforming mortgage loans during fiscal year 1999. A $252.7 million asset-backed security issue closed in July 1998 and a $403.1 million issue closed in January 1999.

Seasonality of Business. Residential mortgage volume is subject to seasonal trends, with real estate sales being generally lower in the first calendar quarter of the calendar year, peaking in the spring and summer seasons, and then declining again in November and December. Accordingly, the revenues of the mortgage operations reporting segment are generally higher in the peak months, but the seasonal trends do not have a material impact on overall results of the Company.

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

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

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

PartnerPlus
SumOne

Competitive Conditions. Both the conventional and sub-prime sectors of the residential mortgage loan market are highly competitive. The principal methods of competition are in service, quality 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. No one firm is a dominant supplier of conforming and nonconforming mortgage loans.

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





environmental hazards in respect of real property may be imposed on a holder of a mortgage note secured by real property.

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

BUSINESS SERVICES

Generally. Designated as a new reportable operating segment for fiscal year 1999, the business services segment provides accounting, tax and consulting services to business clients, and tax, estate planning and financial planning services to individuals in the Unites States through a network of accounting firms located in six metropolitan areas as of April 30, 1999.

In addition to providing these services to the public, the subsidiaries involved in the business services segment provide management and administrative services to the public accounting firms from which non-attest assets have been acquired. The subsidiaries receive fees from the public accounting firms, which continue to provide to the public audit and other services that constitute the practice of public accounting.

HRB Business Services, Inc. Early in the 1999 fiscal year, the Company announced its intention to build a national accounting practice through the acquisition of both regional and local accounting firms. HRB Business Services, Inc. ("HRBBS"), a subsidiary of H&R Block Group, Inc., was incorporated to acquire these firms. As of April 30, 1999, HRBBS and its subsidiaries had acquired the assets or stock of six regional accounting firms, all of which are among the country's 100 largest accounting firms, as well as affiliates entities and local accounting firms.

Donnelly, Meiners, Jordan Kline, P.C. ("DMJK"), a regional accounting firm in Kansas City, Missouri, was the first accounting firm acquired by HRBBS in May 1998. During the 1999 fiscal year, DMJK changed its name to DMJK Business Services, Inc. and acquired the non-attest assets of three local accounting firms by means of a merger or stock purchase. In October 1998, FERS Business Services, Inc. ("FBS"), a subsidiary of HRBBS, acquired the non-attest assets of Friedman Eisenstein Raemer and Schwartz, LLP ("FERS"), a Chicago accounting and consulting firm, and Practice Development Institute, Inc., another subsidiary of HRBBS, acquired the assets of Practice Development Institute, L.L.C., an affiliated business that publishes marketing newsletters and was owned by the partners of FERS. FBS acquired the non-attest assets of two other Chicago-area accounting firms during the 1999 fiscal year.

On November 2, 1998, KSM Business Services, Inc., a subsidiary of HRBBS, acquired the non-attest assets of a third regional accounting and consulting firm, Katz, Sapper & Miller, LLP ("KSM"), located in Indianapolis, Indiana, and later in fiscal 1999 acquired the non-attest assets of two other local accounting firms. On November 3, 1998, other subsidiaries of HRBBS (FM Business Services, Inc. and Freed Maxick ABL Services, Inc., respectively) acquired the non-attest assets of Freed Maxick Sachs & Murphy, PC ("FMSM"), an accounting, tax and consulting firm in Buffalo, New York, and Freed Maxick ABL Services, LLC, an asset-based lending services firm that provides nationwide services to the commercial banking industry. FM Business Services, Inc. acquired the non-attest assets of an accounting firm in Batavia, New York, in February 1999.





In December 1998, WS Business Services, Inc., an HRBBS subsidiary, acquired the non-attest assets of a fifth regional accounting firm, Wallace Sanders & Company. Located in Dallas, Texas, this firm specializes in real estate, health care, service, manufacturing and wholesale industries. On April 16, 1999, CWA Business Services, Inc., an HRBBS subsidiary, acquired the non-attest assets of a sixth accounting firm, C.W. Amos & Company, LLC, serving the Baltimore/Washington, D.C. metropolitan area. Included in this acquisition were the assets of Turner Pension Consulting, LLC, a full service, actuarial, consulting and administration firm designed to maximize the value of its clients' retirement plans.

Shortly following the end of the 1999 fiscal year, RP Business Services, Inc., a subsidiary of HRBBS, acquired the non-attest assets of Rudolph, Palitz LLP, the seventh regional accounting firm, which is based in Blue Bell, Pennsylvania. The Company also announced on June 29, 1999, that it was party to an agreement to acquire substantially all of the non-attest assets of McGladrey & Pullen, LLP, the nation's seventh largest accounting and consulting firm, headquartered in Minneapolis, Minnesota. Following the acquisition, the Company intends to integrate the previously acquired accounting firms within HRBBS and McGladrey & Pullen into one firm to be known as RSM McGladrey Inc, with more than 70 offices nationwide. The M&P transaction is expected to be completed in August 1999.

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

Service Marks and Trademarks. FBS, a wholly owned subsidiary of HRBBS claims ownership of the following service marks and trademarks registered on the principal register of the United States Patent and Trademark Office:

Tonelink
Because Results Come First
FERS Profit Edge

Competitive Conditions. The accounting and consulting business is highly competitive. There are a substantial number of accounting firms offering similar services at the nationwide, regional and local levels.

Government Regulation. Many of the same Federal and state regulations relating to tax preparers and the information concerning tax reform discussed above in "Government Regulation" section of "U.S. Tax Services" apply to Business Services as well, except that accountants are not subject to the same prohibition on the use or disclosure of certain income tax return information as the Tax Services income tax return preparers are. These accounting firms are also subject to state and Federal regulations governing accountants, auditors and financial planners. The Company believes that these state and Federal regulations do not and will not have a material adverse effect on the operations of H&R Block, but it cannot predict what the effect of future regulations may be.

OTHER BUSINESS

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

H&R Block Financial Advisors, Inc. H&R Block Financial Advisors, Inc., a wholly owned subsidiary of BFC, is a federally registered investment advisor whose licensed employees offered





financial planning and investment advice in fiscal year 1999 to the general public in Arizona, Florida, Indianapolis and Ohio. During the 1999 fiscal year, H&R Block Financial Advisors participated with Tax Services and Option One in a four-city test of H&R Block Financial Centers, which offer tax preparation, financial planning, investment advice and home mortgages under one roof. The Company has announced plans to expand the Financial Center concept to an additional 70 locations in fiscal year 2000. The financial services offered by H&R Block Financial Advisors will be offered to clients throughout the year.

Birchtree Financial Services, Inc. Acquired by BFC in January 1999, Birchtree Financial Services, Inc. ("Birchtree") is a full-service investment firm offering stocks, bonds, mutual funds and other securities and insurance products through a network of registered representatives across the county. Included among Birchtree's registered representatives are employees of H&R Block Financial Advisors, Inc. and Tax Services who are licensed to sell securities, mutual funds and insurance products. The products offered by the Birchtree representatives are available to their clients throughout the year.

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

ITEM 2. PROPERTIES.

The executive offices of both the Company and Tax Services are located at 4400 Main Street, Kansas City, Missouri, in a multi-level building owned by Tax Services. The building was constructed in 1963 and expanded or redesigned in 1965, 1973, 1981, and 1996. Shortly after the end of the 1999 fiscal year, Tax Services entered into a 20 year lease for a newly constructed building located at 4400 East Blue Parkway, Kansas City, Missouri. Most other offices of Tax Services (except those in department stores) are operated in premises held under short-term leases providing fixed monthly rentals, usually with renewal options.

BFC's executive offices are located in leased offices at 4435 Main Street, Kansas City, Missouri, as well as at the 4400 Main Street location in Kansas City.

Option One's executive offices are located in leased offices at 3 Ada, Irvine, California. Option One also leases offices in Pleasanton, California, and Tampa, Florida, for its retail operations and branch offices throughout the United States. AMCA is headquartered in leased offices in Burlington, Massachusetts. AMCA also leases offices throughout Massachusetts, Rhode Island and New Hampshire.

The accounting firms acquired by HRBBS and its subsidiaries lease office space in the following metropolitan areas: Kansas City, Missouri; Chicago, Illinois; Indianapolis, Indiana; Buffalo, New York; Dallas, Texas; Baltimore, Maryland; Washington, D.C.; and Philadelphia, Pennsylvania. Birchtree Financial Services, Inc. is headquartered in leased offices in Kansas City, Missouri.





ITEM 3. LEGAL PROCEEDINGS.

CompuServe Corporation ("CompuServe"), certain current and former officers and directors of CompuServe and the Company have been named as defendants in six lawsuits pending before the state and Federal courts in Columbus, Ohio. All suits allege similar violations of the Securities Act of 1933 based on assertions of omissions and misstatements of fact in connection with CompuServe's public filings related to its initial public offering in April 1996. One state lawsuit also alleges certain oral omissions and misstatements in connection with such offering. Relief sought in the lawsuits is unspecified, but includes pleas for rescission and damages. One Federal lawsuit names the lead underwriters of CompuServe's initial public offering as additional defendants and as representatives of a defendant class consisting of all underwriters who participated in such offering. The Federal suits were consolidated, the defendants filed a motion to dismiss the consolidated suits, the district court stayed all proceedings pending the outcome of the state court suits, and the United States Court of Appeals for the Sixth Circuit affirmed such stay. The four state court lawsuits also allege violations of various state statutes and common law of negligent misrepresentation in addition to the 1933 Act claims. The state lawsuits were consolidated for discovery purposes and defendants filed a motion for summary judgment covering all four state lawsuits. As a part of the sale of its interest in CompuServe, the Company has agreed to indemnify WorldCom and CompuServe against 80.1% of any losses and expenses incurred by them with respect to these lawsuits. The defendants are vigorously defending these lawsuits. In the opinion of management, the ultimate resolution of these suits will not have a material adverse impact on the Company's consolidated financial position or results of operations. The lawsuits discussed herein were reported in the Company's Forms 10-Q for the first, second and third quarters of fiscal year 1999.

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

No matters were submitted to a vote of security holders, through the solicitation of proxies or otherwise, during the fourth quarter of the fiscal year ended April 30, 1999.

ITEM 4A. EXECUTIVE OFFICERS OF THE REGISTRANT.

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

| Name and age | Office(s) |
|---|---|
| Henry W. Bloch (76) | Chairman of the Board since August 1989; Chief Executive Officer from August 1989 through July 1992; Member of the Board of Directors since 1955. |
| Frank L. Salizzoni (61) | President and Chief Executive Officer since June 1996; Member of the Board of Directors since 1988. See Note 1. |
| Mark A. Ernst (41) | Executive Vice President and Chief Operating Officer since September 1998. See Note 2. |





| Name and age | Office(s) |
|---|---|
| David F. Byers (37) | Senior Vice President and Chief Marketing Officer since June 1999. See Note 3. |
| James D. Rose (48) | Senior Vice President and Chief Information Officer since July 1999; Vice President and Chief Information Officer from June 1997 through June 1999. See Note 4. |
| Ozzie Wenich (56) | Senior Vice President and Chief Financial Officer since June 1997; Treasurer from June 1997 until December 1997; President, H&R Block International, from June 1996 until May 1998; Vice President, Finance and Treasurer from October 1994 through May 1996; Vice President, Corporate Controller and Treasurer from March 1994 until October 1994. |
| Robert E. Dubrish (47) | President and Chief Executive Officer, Option One Mortgage Corporation, since March 1996; Executive Vice President and Chief Operating Officer, Option One Mortgage Corporation, from December 1992 until March 1996. See Note 5. |
| Terrence E. Putney (45) | President, HRB Business Services, Inc., since May 1998. See Note 6. |
| Thomas L. Zimmerman (49) | President, H&R Block Tax Services, Inc., since June 1996; Executive Vice President, Field Operations, H&R Block Tax Services, Inc. from May 1994 through May 1996. |
| Cheryl L. Givens (33) | Vice President and Corporate Controller since July 1998; Assistant Vice President and Assistant Controller from October 1996 until July 1998; Assistant Vice President and Corporate Controller |

| | |
|---|---|
| | from June 1996 until October 1996; Corporate Accounting Manager from May 1994 until May 1996. |
| James H. Ingraham (45) | Vice President, General Counsel since July 1999; Secretary since June 1990; Vice President, Legal from October 1996 through June 1999; Assistant Vice President, Corporate Legal and Human Resources from December 1995 until October 1996; Assistant Vice President, Legal from May 1994 until December 1995. |
| Linda M. McDougall (46) | Vice President, Communications since July 1999; Assistant Vice President, Communications from November 1995 through June 1999. See Note 7. |





| Name and age | Office(s) |
|---|---|
| Brian N. Schell (33) | Vice President and Treasurer since December 1997; Director of Investor Relations since November 1996; Assistant Treasurer from November 1996 until December 1997; Director of Corporate Development from May 1995 until December 1997; Assistant Vice President, Corporate Development and Planning, Block Financial Corporation, from December 1994 until April 1995. See Note 8. |
| Douglas D. Waltman (38) | Vice President, Human Resources, since April 1998; Assistant Vice President, Director of Education, H&R Block Tax Services, Inc., from September 1996 until April 1998. See Note 9. |
| Robert A. Weinberger (55) | Vice President, Government Relations, since March 1996. See Note 10. |
| Bernard M. Wilson (37) | Vice President and General Manager, Financial Services Group since November 1998. See Note 11. |
| Bret G. Wilson (40) | Vice President, Corporate Development, since December 1997; Vice President, Mortgage Operations, Block Financial Corporation, since March 1997; Vice President, Corporate Counsel and Secretary, Block Financial Corporation, from June 1994 until March 1997. See Note 12. |
| Robert D. Wilson (40) | Vice President, Business Development since July 1999; Vice President, Tax Services Marketing, H&R Block Tax Services, Inc., from September 1998 through June 1999; Assistant Vice President, Marketing, H&R Block Tax Services, Inc., from February 1996 until September 1998. See Note 13. |

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

Note 2: Mr. Ernst served as Senior Vice President, Third Party and International Distribution for American Express Company, Minneapolis, Minnesota, from July 1997 until June 1998; Senior Vice President, WorkPlace Financial Services, American Express Company, from November 1995 until July 1997 and Vice President, Retail Services Group, American Express Company, from December 1993 until November 1995.

Note 3: Mr. Byers was employed by Foote, Cone and Belding, an advertising agency in San Francisco, California, from June 1987 until May 1999, most recently serving as the Senior Vice President and Director of Business Development.





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

Note 5: Block Financial Corporation acquired Option One Mortgage Corporation on June 17, 1997, at which time Mr. Dubrish became an employee of a subsidiary of the Company.

Note 6: The Company acquired Donnelly Meiners Jordan Kline, P.C. on May 15, 1998, at which time Mr. Putney became an employee of a subsidiary of the Company. Prior to May 15, 1998, Mr. Putney had been a shareholder of Donnelly Meiners Jordan Kline, P.C. since June 1987.

Note 7: Ms. McDougall was the District Manager, Creative Services for AT&T Corp., Basking Ridge, New Jersey, from September 1993 until October 1995.

Note 8: Mr. Schell was Special Assistant to the Chief Operating Officer, Federal Deposit Insurance Corporation, Washington, D.C., from May 1994 until December 1995.

Note 9: Mr. Waltman was Manager, Training and Development for Westlake Ace Hardware, Inc., Kansas City, Missouri, from May 1993 until September 1996.

Note 10: Mr. Weinberger was Director, Washington Affairs, Unilever United States, Inc., from February 1991 until April 1995.

Note 11: Mr. Bernard Wilson was Senior Vice President of Financial Services for GMAC Mortgage Corporation, Philadelphia, Pennsylvania, from September 1998 until October 1998 and Vice President of International Operations, American Express Financial Advisors, Minneapolis, Minnesota, from March 1987 until September 1998.

Note 12: Mr. Bret Wilson was an attorney with Smith, Gill, Fisher & Butts, P.C., Kansas City, Missouri, from June 1989 until May 1994.

Note 13: Mr. Robert Wilson was Senior Product Manager for Thompson*Minwax from September 1993 until February 1996.

## PART II

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

The information called for by this item is contained in part in the Company's annual report to security holders for the fiscal year ended April 30, 1999, under the heading "Common Stock Data," and is hereby incorporated by reference. The Company's Common Stock is traded principally on the New York Stock Exchange. The Company's Common Stock is also traded on the Pacific Stock Exchange. On June 10, 1999, there were 34,179 stockholders of the Company. In connection with the acquisition by the Company of Assurance Mortgage Corporation of America ("Assurance") on March 5, 1999, the Company issued on that date an aggregate of 268,325 shares of its Common Stock, without par value, to four individual shareholders of Assurance. As a transaction relating to the sale of a business and not involving any public offering, such issuance was exempt from registration under section 4(2) of the Securities Act of 1933, as amended.





ITEM 6. SELECTED FINANCIAL DATA.

The information called for by this item is contained in the Company's annual report to security holders for the fiscal year ended April 30, 1999, under the heading "Selected Financial Data," and is hereby incorporated by reference.

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

The information called for by this item is contained in the Company's annual report to security holders for the fiscal year ended April 30, 1999, under the heading "Management's Discussion and Analysis of Results of Operations and Financial Condition," and is hereby incorporated by reference.

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

GENERALLY

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

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

- foreign exchange rates, generating translation gains and losses

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

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

INTEREST RATES

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

The investment portfolios of the Company and its subsidiaries at April 30, 1999, primarily consisted of cash equivalents and short-term marketable securities. Consequently, the amortized cost approximates market value. Almost 41% of the Company's total cash and marketable securities portfolio is classified as long-term, with nearly all maturities within a one-to-five year range, compared to 19% in fiscal 1998. Amortized cost of these securities also approximates market value. All investments are generally held until maturity. Assuming all cash equivalents and marketable securities held at year-end were variable rate investments, a 50 basis point change in interest (an approximate 10% decline in interest rates) would negatively impact consolidated pretax earnings by approximately $2 million, or about one-half percent. In fiscal 1998, a 60 basis point change in interest (an approximate 10% decline in interest rates) would have negatively impacted 1998 consolidated pretax earnings by less than $4 million, or about one percent.

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

The Company's variable rate mortgage portfolios are generally short-term in nature, as it is the Company's policy to sell or securitize these loans quarterly, and such portfolios are carried at the lower of cost or market. Because the Company funds these short-term assets with short-term, variable rate debt, the Company is not significantly exposed to interest rate risk in this area. As a result, any change in interest rates would not materially impact the Company's consolidated pretax earnings.

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

FOREIGN EXCHANGE RATES

The operation of the Company's subsidiaries in international markets provides exposure to volatile movements in currency exchange rates. The currencies involved are the Canadian dollar, the Australian dollar and the British pound. International Tax Operations constituted approximately 1% of the Company's fiscal year 1999 consolidated pretax earnings, compared to 4% in fiscal 1998. As currency exchange rates change, translation of the financial results of International Tax Operations into U.S. dollars does not presently materially affect, and has not historically materially affected, the consolidated financial results of the Company, although such changes do affect the year-to-year comparability of the operating results of the international businesses.

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

The Company estimates that a 10% change in foreign exchange rates by itself would impact reported pretax earnings from continuing operations by approximately $200,000. Such impact represents approximately 8% of the pretax earnings of International Tax Operations for fiscal year 1999 and approximately .05% of the Company's consolidated pretax earnings for such year. In fiscal 1998, a 10% change in exchange rates would have impacted fiscal 1998 pretax earnings by approximately one million dollars, or less than one-half percent.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

The information called for by this item and listed at Item 14(a)1 is contained in the Company's annual report to security holders for the fiscal year ended April 30, 1999, and is hereby incorporated by reference.

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

On July 20, 1998, the Company dismissed the accounting firm of Deloitte & Touche LLP and appointed PricewaterhouseCoopers LLP as its independent auditor for the fiscal year ending April 30, 1999. Such appointment was ratified by the shareholders at their 1998 annual meeting. The reports prepared by Deloitte & Touche LLP on the Company's financial statements for fiscal year 1998 did not contain any adverse opinion or disclaimer of opinion, nor were they qualified or modified as to uncertainty, audit scope or accounting principles. The decision to change the Company's independent auditors was made by the Board of Directors of the Company at the recommendation of its Audit Committee following a request for proposals. During the Company's 1998 fiscal year, and any subsequent interim period prior to July 20, 1998, there were no disagreements with Deloitte & Touche LLP on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure which disagreements, if not resolved to the satisfaction of Deloitte & Touche LLP, would have caused it to make reference to the subject matter of the disagreements in its reports. Also, there were no reportable events of the nature described in Regulation S-K, Item 304(a)(1)(v) during either of the Company's two fiscal years prior to fiscal year 1999 and during fiscal year 1999 prior to July 20, 1998.

During the 1998 fiscal year, and any subsequent interim period prior to July 20, 1998, neither the Company, nor anyone acting on behalf of the Company, consulted PricewaterhouseCoopers LLP regarding: (i) the application of accounting principles to a specific transaction, either completed or proposed, or the type of audit opinion that might be rendered on the registrant's financial statements, or (ii) any matter that was either the subject of a disagreement or a reportable event.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

The information called for by this item is contained in the Company's definitive proxy statement filed pursuant to Regulation 14A not later than 120 days after April 30, 1999, in the section titled "Election of Directors" and in Item 4a of Part I of this report, and is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION.

The information called for by this item is contained in the Company's definitive proxy statement filed pursuant to Regulation 14A not later than 120 days after April 30, 1999, in the sections entitled "Directors' Meetings, Compensation and Committees" and "Compensation of Executive Officers," and is incorporated herein by reference, except that information contained in the section entitled "Compensation of Executive Officers" under the subtitles "Performance Graph" and "Compensation Committee Report on Executive Compensation" is not incorporated herein by reference and is not to be deemed "filed" as part of this filing.





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

The information called for by this item is contained in the Company's definitive proxy statement filed pursuant to Regulation 14A not later than 120 days after April 30, 1999, in the section titled "Election of Directors" and in the section titled "Information Regarding Security Holders," and is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

The information called for by this item is contained in the Company's definitive proxy statement filed pursuant to Regulation 14A not later than 120 days after April 30, 1999, in the section titled "Election of Directors," and is incorporated herein by reference.

PART IV

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

(a) 1. Financial Statements

The following consolidated financial statements of H&R Block, Inc., and subsidiaries are incorporated by reference from the Company's annual report to security holders for the fiscal year ended April 30, 1999:



2. Financial Statement Schedules

Report of Independent Accountants on Financial Statement Schedule for PricewaterhouseCoopers LLP, Certified Public Accountants

Independent Auditors' Consent and Report on Schedule for Deloitte & Touche LLP, Certified Public Accountants

Schedule VIII - Valuation and Qualifying Accounts

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





3. Exhibits

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

3(b) Amended and Restated Bylaws of H&R Block, Inc., as amended, filed as Exhibit 3.1 to the Company's quarterly report on Form 10-Q for the quarter ended October 31, 1999, are incorporated herein by reference.

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

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

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

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

4(e) 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 is incorporated by reference.

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

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

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





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

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

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

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

10(g) Amendment No. 3 to H&R Block Deferred Compensation Plan for Directors, filed as Exhibit 10(c) to the Company's quarterly report on Form 10-Q for the quarter ended

July 31, 1997, is incorporated herein by reference.

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

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

10(j) The H&R Block Deferred Compensation Plan for Executives, as Amended and Restated, filed as Exhibit 10.1 to H&R Block's quarterly report on Form 10-Q for the quarter ended January 31, 1999, is incorporated herein by reference.

10(k) Amendment No. 1 to the H&R Block Deferred Compensation Plan for Executives, as Amended and Restated, filed as Exhibit 10.2.to the Company's quarterly report on Form 10-Q for the quarter ended January 31, 1999, is incorporated herein by reference.

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

10(m) The Amendment and Termination of the H&R Block, Inc. Retirement Plan for Non-Employee Directors, filed as Exhibit 10.1 to the Company's quarterly report on Form 10-Q for the quarter ended July 31, 1998, is incorporated herein by reference.





10(n) The Company's 1989 Stock Option Plan for Outside Directors, as amended, filed as Exhibit 10.1 to the Company's quarterly report on Form 10-Q for the quarter ended October 31, 1998, is incorporated herein by reference.

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

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

10(q) 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, is incorporated herein by reference.

13 That portion of the annual report to security holders for the fiscal year ended April 30, 1999 which is expressly incorporated by reference in this filing. Portions of such annual report to security holders not expressly incorporated by this reference in this filing are not deemed "filed" with the Commission.

| | |
|---|---|
| 16 | Letter regarding change in Certifying Accountants dated July 27, 1998 from Deloitte & Touche LLP addressed to the Securities and Exchange Commission, filed on July 27, 1998 as Exhibit 16.1 to the Company's current report on Form 8-K, is incorporated herein by reference. The statements contained in Item 4 of the Company's Form 8-K dated July 27, 1998 to which Deloitte & Touche LLP concurred in such letter are also contained in Item 9 of the Company's annual report on Form 10-K for the fiscal year ended April 30, 1998. |
| 21 | Subsidiaries of the Company. |
| 23(a) | The consent of PricewaterhouseCoopers LLP, Certified Public Accountants. |
| 23(b) | The consent of Deloitte & Touche LLP, Certified Public Accountants. |
| 27 | Financial Data Schedule. |

(b) Reports on Form 8-K.

The Company filed a Current Report on Form 8-K on July 8, 1999, reporting as "Other Events" the asset purchase agreement entered into by the registrant providing for the registrant's purchase of substantially all of the non-attest assets of McGladrey & Pullen, LLP, and the registrant's issuance of a press release announcing the same. The asset purchase agreement was included as Exhibit 10.1 and the press release was included as Exhibit 99.1 to the Form 8-K. No financial statements were filed as a part of the Form 8-K. Except for the Form 8-K filed on July 8, 1999, the Company did not file any reports on Form 8-K during the fourth quarter of the year ended April 30, 1999.





## 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.

July 28, 1999

By /s/ Frank L. Salizzoni
Frank L. Salizzoni, President and
Chief Executive Officer

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

| Signature | Title |
|---|---|
| /s/ Frank L. Salizzoni<br>Frank L. Salizzoni | President, Chief Executive Officer and Director (principal executive officer) |

| | |
|---|---|
| /s/ G. Kenneth Baum<br>G. Kenneth Baum | Director |
| /s/ Henry W. Bloch<br>Henry W. Bloch | Director |
| /s/ Robert E. Davis<br>Robert E. Davis | Director |
| /s/ Donna R. Ecton<br>Donna R. Ecton | Director |
| /s/ Henry F. Frigon<br>Henry F. Frigon | Director |
| /s/ Roger W. Hale<br>Roger W. Hale | Director |
| /s/ Marvin L. Rich<br>Marvin L. Rich | Director |
| /s/ Louis W. Smith<br>Louis W. Smith | Director |
| /s/ Morton I. Sosland<br>Morton I. Sosland | Director |

(Signed as to each on July 28, 1999)





| Signature | Title |
|---|---|
| /s/ Ozzie Wenich<br>Ozzie Wenich | Senior Vice President and Chief Financial Officer (principal financial officer) |
| /s/ Cheryl L. Givens<br>Cheryl L. Givens | Vice President and Corporate Controller (principal accounting officer) |

(Signed as to each on July 28, 1999)

REPORT OF INDEPENDENT ACCOUNTANTS ON FINANCIAL STATEMENT SCHEDULE

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

Our audit of the consolidated financial statements referred to in our report dated June 15, 1999 appearing in the Annual Report to Shareholders of H&R Block, Inc. (which report and consolidated financial statements are incorporated by reference in this Annual Report on Form 10-K) also included an audit of the information as of and for the year ended April 30, 1999 presented in the financial statement schedule listed in Item 14(a)(2) of this Form 10-K. In our opinion, this financial statement schedule presents fairly, in all material respects, the information as of and for the year ended April 30, 1999 set forth therein when read in conjunction with the related consolidated financial statements. The information included in the financial statement schedule as of and for the years ended April 30, 1998 and 1997 was audited by other independent accountants whose report dated June 16, 1998 and July 12, 1999 (as to the effects of the discontinued credit card operations described in the note to the consolidated financial statements on the sale of subsidiaries) expressed an unqualified opinion on that information.

/s/ PricewaterhouseCoopers LLP

Kansas City, Missouri
June 15, 1999





INDEPENDENT AUDITORS' CONSENT AND REPORT ON SCHEDULE

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

We consent to the incorporation by reference in Post-Effective Amendment No. 4 to Registration Statement No. 33-185 of H&R Block, Inc. and subsidiaries (relating to shares of Common Stock issued under the 1984 Long-Term Executive Compensation Plan) on Form S-8, Registration Statement No. 33-33889 of H&R Block, Inc. and subsidiaries (relating to shares of Common Stock issuable under the 1989 Stock Option Plan for Outside Directors) on Form S-8, Registration Statement No. 33-54989 of H&R Block, Inc. and subsidiaries (relating to shares of Common Stock issued under the 1993 Long-Term Executive

Compensation Plan) on Form S-8, Registration Statement No. 33-64147 of H&R Block, Inc. and subsidiaries (relating to shares of Delayed Convertible Preferred Stock issuable under the Spry, Inc. 1995 Stock Option Plan) on Form S-8, Registration Statement No. 333-62515 of H&R Block, Inc. and subsidiaries (relating to shares of Common Stock issuable under the Third Stock Option Plan for Seasonal Employees) on Form S-8, and Registration Statement No. 333-42143 of H&R Block, Inc. and subsidiaries (relating to shares of Common Stock issued under the H&R Block Stock Plan for Non-Employee Directors) on Form S-8 of our report dated June 16, 1998 (July 12, 1999 as to the effects of the discontinued credit card operations described in the note on the sale of subsidiaries), appearing in this Annual Report on Form 10-K of H&R Block, Inc. and subsidiaries for the year ended April 30, 1999.

Our audits of the consolidated financial statements referred to in our aforementioned report also included the 1997 and 1998 financial statement schedule of H&R Block, Inc. and subsidiaries, listed in Item 14. This financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion based on our audits. In our opinion, such 1997 and 1998 financial statement schedule when considered in relation to the basic financial statements taken as a whole, present fairly in all material respects the information set forth therein.

/s/Deloitte & Touche LLP

Kansas City, Missouri
July 28, 1999





H&R BLOCK, INC.
AND SUBSIDIARIES

SCHEDULE VIII - VALUATION AND QUALIFYING ACCOUNTS

YEARS ENDED APRIL 30, 1999, 1998 AND 1997

| Description | Balance Beginning of Period | Additions: Charged to Costs and Expenses | Additions: Charged to Other | Deductions | Balance at End of Period |
|---|---|---|---|---|---|
| Allowance for Doubtful Accounts-deducted from accounts receivable in the balance sheet | | | | | |
| 1999 | $45,314,000 | $71,662,000 | $ - | $55,104,000 | $61,872,000 |
| 1998 | $30,144,000 | $75,171,000 | $ - | $60,001,000 | $45,314,000 |
| 1997 | $ 4,419,000 | $65,865,000 | $ - | $40,140,000 | $30,144,000 |

EXHIBIT 13

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

## RESULTS OF OPERATIONS

### SIGNIFICANT EVENTS IN FISCAL 1999

On January 29, 1999, the Company completed the sale of its credit card portfolio. The Company recorded a $20.9 million loss, or $.21 per share, net of taxes, on the transaction. The consolidated statements of earnings for all periods presented reflect the Company's Credit card operations segment as discontinued operations.

During fiscal year 1999, the Company acquired six regional accounting firms and several smaller market firms. This new Business services segment is primarily engaged in providing accounting, tax and consulting services to business clients and tax, estate planning and financial planning services to individuals. The purchase prices plus additional contingent payments aggregated $110.1 million. Each acquisition was accounted for as a purchase, and accordingly, results for each acquisition are included since the date of acquisition.

### SIGNIFICANT EVENTS IN FISCAL 1998

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

On June 17, 1997, the Company completed the purchase of Option One Mortgage Corporation ("Option One"). Option One primarily engages in the origination, purchase, servicing, securitization and sale of nonconforming mortgage loans. Based in Irvine, California, Option One has a network of more than 5,000 mortgage brokers in 49 states. The cash purchase price was $218.1 million. In addition, the Company made a cash payment of $456.2 million to Option One's parent to eliminate intercompany loans made to Option One to finance its mortgage operations. The $456.2 million payment was recorded as an intercompany loan and was repaid to the Company by the end of June 1997 after Option One sold the mortgage loans to a third party in the ordinary course of business. The acquisition was accounted for as a purchase and, accordingly, Option One's results are included since the date of acquisition.

### NEW ACCOUNTING STANDARDS

In the first quarter of fiscal 1999, the Company adopted Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income" ("SFAS 130"). SFAS 130 establishes standards for reporting and display of comprehensive income and its components (revenues, expenses, gains and losses) in a full set of general-purpose financial statements. SFAS 130 requires that all changes in equity during the period, except those resulting from investments by and distributions to owners, be reported as "comprehensive income" in the financial statements. The Company's comprehensive income is comprised of net earnings, foreign currency translation adjustments and the change in the net unrealized gain or loss on marketable securities. The adoption of SFAS 130 had no effect on the Company's consolidated financial statements.

In the third quarter of fiscal 1999, the Company adopted Statement of Financial Accounting Standards No. 134, "Accounting for Mortgage-Backed Securities Retained after the Securitization of Mortgage Loans Held for Sale by a Mortgage Banking Enterprise" ("SFAS 134"). SFAS 134 requires that mortgage-backed securities or other interests retained after a securitization be classified based on the intent to sell or hold the investments. The Company has classified its retained interests as available-for-sale securities, which are included in investments in marketable securities on the consolidated balance sheets.

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

1999 COMPARED TO 1998

CONSOLIDATED RESULTS
Revenues increased 29.5% to $1.645 billion compared to $1.270 billion last year. Net earnings from continuing operations increased 29.4% to $237.8 million from $183.8 million in the prior year. Basic net earnings per share from continuing operations increased to $2.38 from $1.75 last year. Diluted net earnings per share from continuing operations increased to $2.36 compared to $1.71 in 1998. The net effect of the share repurchase program in 1999 was to increase earnings per share approximately $.05.

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

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

Revenues increased 20.1% to $1.258 billion from $1.047 billion in the prior year. Combined tax preparation and electronic filing fees increased $147.5 million, or 17.3%, due to a 4.5% increase in the number of clients served, higher fees due to complexity and price increases. Fees associated with Refund Anticipation Loans ("RALs") increased 69.1% over last year to $90.2 million reflecting a 40.4% increase in the number of RAL participations over last year due to the increase in the Company's participation percentage to 49.9%





from 40% in 1998. Royalties increased by $12.0 million, or 11.7%, reflecting improved results in the number of clients served by franchises as well as increases in pricing. Software revenues increased $14.2 million, or 74.0%, as a result of increased market penetration.

Operating earnings increased 24.5% to $314.1 million from $252.2 million in 1998. The pretax margin increased to 25.0% from 24.1% in the prior year. The improved margin resulted from higher revenues spread over a significant portion of fixed operating expenses, such as occupancy expenses, a lower bad debt rate associated with the RAL program and improved results from software sales.

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

Revenues decreased 8.6% to $74.7 million from $81.8 million in 1998. Pretax earnings declined 78.9% to $2.5 million from $11.9 million last year, and the pretax margin decreased to 3.4% from 14.6% in the prior year. The downturn in both revenues and pretax earnings is due to disappointing results from Canada.

As compared to last year, Canada's revenues declined 9.6% to $58.5 million and pretax earnings declined 77.6% to $2.4 million. Results were affected by several factors. The number of customers served in company-owned offices declined 6.1%, resulting in the revenue decline. The Canadian government's expanded efforts to provide free assistance to low-income Canadians contributed to the decrease in clients served. In addition, operating expenses, such as depreciation, advertising and rent, increased significantly due to continued office expansion.

A weaker Australian dollar also affected international results when translated into U.S. currency. In U.S. dollars, Australia's revenues declined 7.4% to $14.5 million and pretax earnings increased 1.7% to $2.3 million. However, in Australian dollars, pretax earnings increased 33.2% to $4.0 million, while revenues were up 11.6% to $24.2 million. The increase in Australian dollar revenues and pretax earnings is due to a 5.2% increase in clients served.

In the United Kingdom, the cost of operating 20 company-owned offices for a full year compared with a partial year in 1998 resulted in a pretax loss of $2.6 million, up 62.8% from the prior year. The Company is continuing its efforts to build a customer base in the U.K.

MORTGAGE OPERATIONS

This segment is primarily engaged in the origination, purchase, servicing, securitization and sale of nonconforming and conforming mortgage loans in the United States. Mortgage origination services are offered through a network of mortgage brokers in 49 states and through H&R Block offices in 4 states.

Revenues increased 88.5% over last year to $255.9 million. Pretax earnings increased 103.7% to $62.7 million from $30.8 million in 1998. The increase in both revenues and pretax earnings is largely due to Option One, which reported revenues of $221.6 million and pretax earnings of $63.4 million. Option One originated $3.6 billion of loans in fiscal 1999, up 74.8% from last year. At April 30, 1999, Option One's servicing portfolio was 65,300 loans totaling $6.5 billion.

BUSINESS SERVICES

This segment is primarily engaged in providing accounting, tax and consulting services to business clients and tax, estate planning and financial planning services to individuals. This segment offers services through regional accounting firms based in six cities in the United States. A new segment this year, Business services reported revenues of $47.3 million and pretax earnings of $7.1 million. During fiscal year 1999, six regional accounting firms and several smaller market firms were acquired.

INVESTMENT INCOME, NET

Net investment income increased 25.9% to $32.2 million from $25.6 million in 1998, primarily as a result of an increase in the amount of cash available for investment throughout fiscal 1999.

UNALLOCATED CORPORATE AND ADMINISTRATIVE

The unallocated corporate and administrative pretax loss increased to $17.4 million from $10.4 million in the prior year, largely due to increased charitable contributions, increased wages and employee benefits, and lower earnings from the Company's captive insurance subsidiary.

INCOME TAX EXPENSE

The effective tax rate in fiscal 1999 of 38.0% remained unchanged from last year.

1998 COMPARED TO 1997

CONSOLIDATED RESULTS

Revenues increased 19.1% to $1.270 billion compared to $1.066 billion in 1997. Net earnings from continuing operations increased 24.1% to $183.8 million from $148.1 million in the prior year. Basic net earnings per share from continuing operations increased to $1.75 from $1.42 last year. Diluted net earnings per share from continuing operations increased to $1.71 compared to $1.40 in 1997.

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

U.S. TAX OPERATIONS

Revenues increased 8.4% to $1.047 billion from $966.5 million in 1997. Combined tax preparation and electronic filing fees increased $71.2 million, or 9.1%, entirely attributable to price increases. Clients served, which includes taxpayers for whom the Company prepared income tax returns, as well as taxpayers for whom only electronic filing services were provided, was relatively consistent with the prior year. Royalties increased by $4.0 million, or 4.0%, reflecting improved results in the number of clients served by franchises as well as increases in pricing. Software revenues increased $5.2 million, or 36.6%, as a result of increased market penetration.

Operating earnings increased 19.9% to $252.2 million from $210.4 million in 1997. The pretax margin was 24.1% compared to 21.8% in the prior year. The improved margin resulted from cost-control measures implemented throughout the tax operations business, primarily related to marketing and advertising expense and employee compensation, in addition to lower bad debt expense in 1998 associated with electronic filing.

INTERNATIONAL TAX OPERATIONS

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





continued decline in available provincial tax credits.

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

MORTGAGE OPERATIONS

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

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

INVESTMENT INCOME, NET

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

UNALLOCATED CORPORATE AND ADMINISTRATIVE

The unallocated corporate and administrative pretax loss increased $6.2 million to $10.4 million, largely due to increased charitable contributions, increased wages and employee benefits, and the start-up costs related to a pilot program of additional financial services to be offered through the Company's tax offices. Additionally, the Company favorably adjusted its liability for certain insurance contingencies in 1997 based on actuarial valuations. Interest expense on long-term debt of $13.7 million in 1998 represented primarily the interest on debt associated with the acquisition of Option One.

INCOME TAX EXPENSE

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

LIQUIDITY AND CAPITAL RESOURCES

The Company's financial position remained strong in 1999, with cash and marketable securities of $420.6 million at year-end, compared to $1.590 billion at the end of 1998. This decrease resulted primarily from the acquisition of 11.8 million shares of the Company's common stock at an aggregate cost of $492.9 million and a $571.1 million reduction in short term borrowings. Working capital declined to $533.6 million at April 30, 1999 from $866.4 million last year, but the working capital ratio increased to 1.96 to 1 this year compared to 1.68 to 1 a year earlier. Stockholders' equity at April 30, 1999 and 1998 was $1.062 billion and $1.342 billion, respectively.

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

The Company incurs short-term borrowings throughout the year to fund receivables associated with its mortgage loan and other financial services programs. During the past three years, the Company has also used short-term borrowings in January through April to purchase a participation interest ranging from 40% to 49.9% in certain RALs through its agreement with Household Bank. These short-term borrowings in the U.S. are supported by a $1.85 billion back-up credit facility through November 1999, subject to renewal. Outstanding commercial paper related to loans held for sale and other receivables amounted to $71.9 million and $643.0 million, respectively, at April 30, 1999 and 1998. Loans held for sale totaled $636.7 million and $448.1 million at April 30, 1999 and 1998, respectively.

In Canada, from January through April each year, the Company uses Canadian borrowings to purchase refunds due its clients from Revenue Canada. Maturities of these borrowings range from 30 to 90 days. Net accounts receivable at April 30, 1999 and 1998 include amounts due from Revenue Canada of $11.3 million and $13.9 million, respectively.

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

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

Management does not anticipate that the level of capital expenditures in 2000, exclusive of acquisitions, will increase significantly from 1999. The Company will continue to use short-term financing in the United States to finance various financial activities conducted by Block Financial Corporation, including the funding of loan originations by Option One, and in Canada to finance the Canadian refund discount program.

The Company announced in December 1993 its intention to repurchase from time to time up to 10 million of its shares on the open market. In July 1996, the Company announced its intention to repurchase up to 10 million additional shares on the open market over a two-year period following the separation of CompuServe. At April 30, 1999, 17.0 million shares had been repurchased under these authorizations. The Company intends to continue to purchase its shares on the open market in accordance with these authorizations, subject to various factors including the price of the stock, availability of excess cash, the ability to maintain financial flexibility, securities laws restrictions and other investment opportunities available.

YEAR 2000 READINESS DISCLOSURE

The Company has established a program to identify, prioritize, evaluate and mitigate potential Year 2000 related issues. As part of its program, the Company has identified three key categories of software and systems, including information technology (IT) systems, non-IT systems (systems with internal clocks or imbedded microprocessors) and systems of third parties with which it interacts, for which the





Company has developed detailed plans to address the Year 2000 issue.

The Company has identified 9 mission critical business functions (e.g. U.S. tax preparation services, wholesale loan services, etc.) and 28 non-mission critical business functions (e.g. TaxCut(R) software, Australian tax operations, etc.). Within each of the business functions, key IT and non-IT systems have been inventoried and assessed for compliance and detailed plans are in place for required system modifications or replacements. Currently, remediation projects are at different phases of completion. One hundred and thirty-six remediation projects, including both IT and non-IT systems, were identified within the 9 mission critical business functions. Of these projects, 118 are complete and successfully tested, 4 are in the testing phase and 14 are still in progress. Of the projects currently in the testing phase, all are scheduled to be completed by July 31, 1999. The remaining projects are scheduled to be completed by September 1999.

The Company has initiated communications and surveyed state, Federal and foreign governments and suppliers with which it interacts to determine their plans for addressing Year 2000 issues. The Company is relying on their responses to determine if key third parties will be Year 2000 compliant. One of the Company's key third parties is the Internal Revenue Service (IRS). In a report given to the House Committee on Ways and Means on the Year 2000 Conversion Efforts on February 24, 1999, the Commissioner of the IRS reported the status of the IRS's Year 2000 effort. He stated: "Nearly all of our (IRS) mission critical systems were made Y2K compliant and were placed in production for the 1999 Filing Season. Approximately half of these systems have been successfully tested 'end-to-end' with the clocks rolled forward. We (IRS) will continue focusing our repair efforts on mission critical systems from now until the end of March. From

April through the end of 1999, most of the efforts will be applied to wrapping up some smaller systems and, most importantly, completing the full-scale End-to-End Testing." The Company tested its systems with the IRS in May and June and found no major problems. In addition, the Company continues to communicate frequently with the IRS regarding its Year 2000 readiness. The Company is also in the process of completing a survey and inventory of tax franchisees. Some readiness issues have been identified and the Company is consulting with its franchisees on their remediation programs to help mitigate their risk. Assurances from franchisees of Year 2000 readiness are scheduled to be obtained by September 1999. The Company will continue to monitor its third party relationships for Year 2000 issues.

Costs associated with the Year 2000 issue are being expensed as incurred. Total costs are currently estimated at $3.8 million, with approximately $2.5 million incurred through April 30, 1999. The remaining costs to complete represent the cost of on-going monitoring of the Company's continued readiness through the end of the next fiscal year. The costs associated with the replacement of computer systems, hardware and equipment (currently estimated to be $13.9 million in total, with $13.6 million incurred through April 30, 1999), substantially all of which would be capitalized, are not included in the above estimates. All costs related to the Year 2000 issue are being funded through internally-generated funds.

The Company's most likely, worst case potential risk is that the IRS will not be Year 2000 compliant and the Company would not be able to process electronic filings or refund anticipation loans. The Company believes that its competitors will face the same risks.

The Company has identified and developed contingency plans for Year 2000 interruptions in the event that internal and/or external remediation projects are not completed on a timely basis or that they fail to meet anticipated needs. The Company has focused its contingency plans on accounting functions, communications, distribution channels, facilities, insurance, suppliers, treasury functions and tax operations (which includes franchises, Federal and state governments, IRS and electronic filing). In addition, disaster recovery plans and business resumption plans are being reviewed and modified for information technology functions. While the Company does not anticipate problems in any of these areas, the Company believes a comprehensive plan includes preparation for continuity of its mission critical processes. The contingency plans were substantially completed in June 1999 and are scheduled to be completed by September 1999, with on going modifications being made as issues requiring change, if any, are identified.

The Company's Year 2000 program is an ongoing process and the estimates of costs, risks and completion dates are based on currently available information and are subject to change.

While the Company does not anticipate any major interruptions of its business activities, it can not make assurances that its systems, the systems of the state, Federal and foreign governments, tax franchisees and suppliers will be Year 2000 compliant and will not interrupt business. While the impact can not be fully determined, the inability of these systems to be ready could result in significant difficulties in processing and completing fundamental transactions. In such event, the Company's results of operations and financial position could be adversely affected in a material manner.

The Notes to consolidated financial statements, as well as other information contained in this Annual Report to Shareholders may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Such statements are based upon current information, expectations, estimates and projections regarding the Company, the industry and the markets in which the Company operates and management's assumptions and beliefs relating thereto. Words such as "will," "expect," "intend," "plan," "wish," "estimate," "approximate," and variations thereof and similar expressions are intended to identify such forward-looking statements. These statements speak only as of the date on which they are made, are not guarantees of future performance, and involve certain risks, uncertainties and assumptions that are difficult to predict. Therefore, actual outcomes and results could materially differ from what is expressed, implied or forecast in such forward-looking statements. Such differences could be caused by a number of factors including, but not limited to, the uncertainty of the completion of the McGladrey transaction; year 2000 readiness of the Company and third parties; the uncertainty of laws, legislation, regulations, supervision and licensing by federal, state and local authorities and their impact on the lines of business in which the Company's subsidiaries are involved; unforeseen compliance costs; changes in economic, political or regulatory environments; changes in competition and the effects of such changes; the Company's inability to successfully expand its financial center operations, other financial planning and investment services operations, retail mortgage operations, and accounting practice; the Company's inability to successfully design, create, modify and operate its computer systems and networks; litigation involving the Company; changes in management and management strategies; and risks described from time to time in reports and registration statements filed by the Company and its subsidiaries with the Securities and Exchange Commission. Readers should take these factors into account in evaluating any such forward-looking statements. The Company undertakes no obligation to update publicly or revise any forward-looking statements, whether as a result of new information, future events or otherwise.





CONSOLIDATED STATEMENTS OF EARNINGS

Amounts in thousands, except per share amounts

| Year Ended April 30 | 1999 | 1998 | 1997 |
|---|---|---|---|
| REVENUES: | | | |
| Service revenues | $1,324,494 | $1,047,181 | $ 921,954 |
| Product sales | 174,124 | 103,717 | 31,781 |
| Royalties | 123,201 | 111,142 | 107,508 |
| Other | 22,846 | 7,941 | 5,167 |
| | 1,644,665 | 1,269,981 | 1,066,410 |
| EXPENSES: | | | |
| Employee compensation and benefits | 610,866 | 483,951 | 420,060 |
| Occupancy and equipment | 232,003 | 195,192 | 175,050 |
| Marketing and advertising | 90,056 | 71,594 | 76,087 |
| Bad debt | 71,662 | 53,736 | 51,303 |
| Interest | 69,338 | 38,899 | 608 |
| Supplies, freight and postage | 57,157 | 51,705 | 44,554 |
| Other | 158,509 | 103,387 | 77,535 |
| | 1,289,591 | 998,464 | 845,197 |
| Operating earnings | 355,074 | 271,517 | 221,213 |
| OTHER INCOME: | | | |
| Investment income, net | 32,234 | 25,596 | 10,870 |
| Other, net | (3,767) | (680) | -- |
| | 28,467 | 24,916 | 10,870 |
| Earnings from continuing operations before income taxes | 383,541 | 296,433 | 232,083 |
| Taxes on earnings | 145,746 | 112,645 | 83,951 |
| NET EARNINGS FROM CONTINUING OPERATIONS | 237,795 | 183,788 | 148,132 |
| Net loss from discontinued operations (less applicable income tax benefit of ($953), ($13,183) and ($56,091)) | (1,490) | (23,525) | (100,377) |
| Net gain (loss) on sale of discontinued operations (less applicable income taxes (benefit) of ($13,387) and $251,701) | (20,939) | 231,867 | -- |
| NET EARNINGS | $ 215,366 | $ 392,130 | $ 47,755 |
| BASIC NET EARNINGS PER SHARE: | | | |
| Net earnings from continuing operations | $2.38 | $1.75 | $1.42 |
| Net earnings (loss) from discontinued operations | (.22) | 1.99 | (.96) |
| Net earnings | $2.16 | $3.74 | $ .46 |
| DILUTED NET EARNINGS PER SHARE: | | | |
| Net earnings from continuing operations | $2.36 | $1.71 | $1.40 |
| Net earnings (loss) from discontinued operations | (.22) | 1.94 | (.95) |
| Net earnings | $2.14 | $3.65 | $ .45 |

See notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEETS

AMOUNTS IN THOUSANDS, EXCEPT SHARE DATA

| April 30 | 1999 | 1998 |
|---|---|---|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents. | $ 193,240 | $ 900,856 |
| Marketable securities | 56,881 | 400,240 |
| Receivables, less allowance for doubtful accounts of $61,872 and $45,314 | 743,301 | 793,237 |
| Prepaid expenses and other current assets | 94,000 | 48,944 |
| Total current assets | 1,087,422 | 2,143,277 |
| INVESTMENTS AND OTHER ASSETS: | | |
| Investments in marketable securities | 170,528 | 289,096 |
| Excess of cost over fair value of net tangible assets acquired, less accumulated amortization of $64,414 and $40,261 | 405,534 | 288,580 |
| Other | 132,470 | 105,809 |
| | 708,532 | 683,485 |
| PROPERTY AND EQUIPMENT, at cost less accumulated depreciation and amortization of $193,549 and $167,065 | 114,222 | 77,321 |
| | $1,910,176 | $2,904,083 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| CURRENT LIABILITIES: | | |
| Notes payable | $ 71,939 | $ 643,002 |
| Accounts payable, accrued expenses and deposits | 168,641 | 114,875 |
| Accrued salaries, wages and payroll taxes | 161,590 | 96,168 |
| Accrued taxes on earnings | 151,659 | 422,847 |
| Total current liabilities | 553,829 | 1,276,892 |
| LONG-TERM DEBT | 249,725 | 249,675 |
| OTHER NONCURRENT LIABILITIES | 44,635 | 35,884 |
| COMMITMENTS AND CONTINGENCIES | -- | -- |
| STOCKHOLDERS' EQUITY: | | |
| Common stock, no par, stated value $.01 per share: authorized 400,000,000 shares | 1,089 | 1,089 |
| Convertible preferred stock, no par, stated value $.01 per share, authorized 500,000 shares | -- | -- |
| Additional paid-in capital | 420,658 | 432,335 |
| Accumulated other comprehensive income (loss) | (23,400) | (24,517) |
| Retained earnings | 1,130,909 | 1,010,547 |
| | 1,529,256 | 1,419,454 |
| Less cost of common stock in treasury | 467,269 | 77,822 |
| | 1,061,987 | 1,341,632 |
| | $1,910,176 | $2,904,083 |

See notes to consolidated financial statements.



CONSOLIDATED STATEMENTS OF CASH FLOWS

Amounts in Thousands

| Year Ended April 30 | 1999 | 1998 | 1997 |
|---|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | |
| Net earnings | $ 215,366 | $ 392,130 | $ 47,755 |
| Adjustments to reconcile net earnings to net cash provided by operating activities: | | | |
| Depreciation and amortization | 74,605 | 55,787 | 36,526 |
| Provision for deferred taxes on earnings | 1,739 | (15,639) | 538 |
| Net (gain) loss on sales of subsidiaries | 20,939 | (231,867) | -- |
| Net gain on sales of marketable securities | (4,124) | (1,720) | (454) |
| Other noncurrent liabilities | 4,739 | (3,068) | 730 |
| Changes in assets and liabilities, net of acquisitions: | | | |
| Receivables | 183,735 | (44,727) | (94,452) |
| Mortgage loans held for sale: | | | |
| Originations and purchases | (4,290,207) | (2,330,349) | (211,700) |
| Sales and principal repayments | 4,201,187 | 2,443,725 | 113,259 |
| Prepaid expenses and other current assets | (27,952) | (27,618) | (15,455) |
| Net assets of discontinued operations | -- | 13,665 | 95,405 |
| Accounts payable, accrued expenses and deposits | 46,029 | (82,469) | 68,514 |
| Accrued salaries, wages and payroll taxes | 55,178 | (10,965) | 10,932 |
| Accrued taxes on earnings | (260,458) | 28,118 | 36,833 |
| Net cash provided by operating activities | 220,776 | 185,003 | 88,431 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | |
| Purchases of marketable securities | (251,627) | (882,378) | (75,595) |
| Maturities of marketable securities | 211,239 | 38,961 | 517 |
| Sales of marketable securities | 522,252 | 1,321,716 | 23,852 |
| Purchases of property and equipment, net | (78,823) | (46,803) | (44,277) |
| Excess of cost over fair value of net tangible assets acquired, net of cash acquired | (123,657) | (265,700) | (17,249) |
| Other, net | (17,171) | (30,812) | (16,038) |
| Net cash provided by (used in) investing activities | 262,213 | 134,984 | (128,790) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | | |
| Repayments of notes payable | (17,276,595) | (11,090,798) | (5,041,386) |
| Proceeds from issuance of notes payable | 16,593,978 | 11,008,018 | 5,238,354 |
| Proceeds from issuance of long-term debt | -- | 249,675 | -- |
| Dividends paid | (95,004) | (83,635) | (107,988) |
| Payments to acquire treasury shares | (492,945) | (18,351) | -- |
| Proceeds from stock options exercised | 79,961 | 58,881 | 3,439 |
| Net cash provided by (used in) financing activities | (1,190,605) | 123,790 | 92,419 |
| Net increase (decrease) in cash and cash equivalents | (707,616) | 443,777 | 52,060 |
| Cash and cash equivalents at beginning of the year | 900,856 | 457,079 | 405,019 |
| Cash and cash equivalents at end of the year | $ 193,240 | $ 900,856 | $ 457,079 |
| SUPPLEMENTAL CASH FLOW DISCLOSURES: | | | |
| Income taxes paid (received) | $ 394,273 | $ 102,396 | $ (8,047) |
| Interest paid | 71,431 | 50,302 | 10,889 |

See notes to consolidated financial statements.





CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

AMOUNTS IN THOUSANDS

Convertible

| | Common Stock | | Preferred Stock | | Additional Paid-in Capital | Retained Earnings | Treasury Stock | |
|---|---|---|---|---|---|---|---|---|
| | Shares | Amount | Shares | Amount | | | Shares | Amount |
| Balances at May 1, 1996 | 108,973 | $1,089 | 405 | $ 4 | $504,694 | $ 762,331 | (5,556) | $(213,406) |
| Net earnings for the year | -- | -- | -- | -- | -- | 47,755 | -- | -- |
| Unrealized loss on translation | -- | -- | -- | -- | -- | -- | -- | -- |
| Change in net unrealized gain on marketable securities | -- | -- | -- | -- | -- | -- | -- | -- |
| Comprehensive income | -- | -- | -- | -- | -- | -- | -- | -- |
| Stock options exercised | -- | -- | 2 | -- | 24 | -- | 89 | 3,415 |
| Cancellation of restricted stock | -- | -- | -- | -- | -- | -- | (28) | (1,044) |
| Stock issued for acquisition | -- | -- | -- | -- | (2,410) | -- | 590 | 22,660 |
| Cash dividends paid -- $1.04 per share | -- | -- | -- | -- | -- | (107,988) | -- | -- |
| Balances at April 30, 1997 | 108,973 | 1,089 | 407 | 4 | 502,308 | 702,098 | (4,905) | (188,375) |
| Net earnings for the year | -- | -- | -- | -- | -- | 392,130 | -- | -- |
| Unrealized loss on translation | -- | -- | -- | -- | -- | -- | -- | -- |
| Change in net unrealized gain on marketable securities | -- | -- | -- | -- | -- | -- | -- | -- |
| Comprehensive income | -- | -- | -- | -- | -- | -- | -- | -- |
| Stock options exercised | -- | -- | 32 | -- | (1,832) | -- | 1,578 | 60,882 |
| Conversion of Convertible Preferred Stock | -- | -- | (436) | (4) | (68,018) | -- | 1,744 | 68,022 |
| Cancellation of Convertible Preferred Stock | -- | -- | (1) | -- | (123) | (46) | -- | -- |
| Acquisition of treasury shares | -- | -- | -- | -- | -- | -- | (409) | (18,351) |
| Cash dividends paid -- $.80 per share | -- | -- | -- | -- | -- | (83,635) | -- | -- |
| Balances at April 30, 1998 | 108,973 | 1,089 | 2 | -- | 432,335 | 1,010,547 | (1,992) | (77,822) |
| Net earnings for the year | -- | -- | -- | -- | -- | 215,366 | -- | -- |
| Unrealized loss on translation | -- | -- | -- | -- | -- | -- | -- | -- |
| Change in net unrealized gain on marketable securities | -- | -- | -- | -- | -- | -- | -- | -- |
| Comprehensive income | -- | -- | -- | -- | -- | -- | -- | -- |
| Stock options exercised | -- | -- | -- | -- | (12,042) | -- | 2,175 | 90,462 |
| Restricted stock granted | -- | -- | -- | -- | (81) | -- | 37 | 1,544 |
| Stock issued for acquisition | -- | -- | -- | -- | 807 | -- | 268 | 11,053 |
| Conversion of Convertible Preferred Stock | -- | -- | (2) | -- | (361) | -- | 11 | 439 |
| Acquisition of treasury shares | -- | -- | -- | -- | -- | -- | (11,843) | (492,945) |
| Cash dividends paid -- $.95 per share | -- | -- | -- | -- | -- | (95,004) | -- | -- |
| Balances at April 30, 1999 | 108,973 | $1,089 | -- | $ -- | $420,658 | $1,130,909 | (11,344) | $(467,269) |

| | Accumulated Other Comprehensive Income (loss) | Total Equity |
|---|---|---|
| Balances at May 1, 1996 | $(15,119) | $1,039,593 |
| Net earnings for the year | -- | -- |
| Unrealized loss on translation | (3,065) | -- |
| Change in net unrealized gain on marketable securities | 157 | -- |
| Comprehensive income | -- | 44,847 |
| Stock options exercised | -- | 3,439 |
| Cancellation of restricted stock | -- | (1,044) |
| Stock issued for acquisition | -- | 20,250 |
| Cash dividends paid -- $1.04 per share | -- | (107,988) |
| Balances at April 30, 1997 | (18,027) | 999,097 |
| Net earnings for the year | -- | -- |
| Unrealized loss on translation | (5,290) | -- |
| Change in net unrealized gain on marketable securities | (1,200) | -- |
| Comprehensive income | -- | 385,640 |
| Stock options exercised | -- | 59,050 |
| Conversion of Convertible | | |

| | | |
|---|---|---|
| Preferred Stock | -- | -- |
| Cancellation of Convertible Preferred Stock | -- | (169) |
| Acquisition of treasury shares | -- | (18,351) |
| Cash dividends paid -- $.80 per share | -- | (83,635) |
| Balances at April 30, 1998 | (24,517) | 1,341,632 |
| Net earnings for the year | -- | -- |
| Unrealized loss on translation | (1,525) | -- |
| Change in net unrealized gain on marketable securities | 2,642 | -- |
| Comprehensive income | -- | 216,483 |
| Stock options exercised | -- | 78,420 |
| Restricted stock granted | -- | 1,463 |
| Stock issued for acquisition | -- | 11,860 |
| Conversion of Convertible Preferred Stock | -- | 78 |
| Acquisition of treasury shares | -- | (492,945) |
| Cash dividends paid -- $.95 per share | -- | (95,004) |
| Balances at April 30, 1999 | $(23,400) | $1,061,987 |

See notes to consolidated financial statements.





NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DOLLARS IN THOUSANDS, EXCEPT SHARE DATA

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of operations: The operating subsidiaries of H&R Block, Inc. provide a variety of services to the general public, principally in the United States, but also in Canada, Australia and other foreign countries. Approximately 81% of total revenues are generated from tax return preparation, electronic filing of tax returns and other tax-related services. Certain of these subsidiaries also originate, purchase, service, sell and securitize nonconforming and conforming mortgages, offer personal productivity software, purchase participation interests in refund anticipation loans made by a third-party lending institution, and offer accounting, tax and consulting services to business clients.

Principles of consolidation: The consolidated financial statements include the accounts of H&R Block, Inc. (the "Company"), all majority-owned subsidiaries and companies that are directly or indirectly controlled by the Company through majority ownership or otherwise. All material intercompany transactions and balances have been eliminated.

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

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

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

Residual interests in fiscal 1999 are classified as available-for-sale securities, and are carried at market value, based on a discounted cash flow model, with unrealized gains and losses included in stockholders' equity. The residual interests are amortized over the estimated lives of the loans to which they relate.

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

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

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

Excess of cost over fair value of net tangible assets acquired: The excess of cost of purchased subsidiaries, operating offices and franchises over the fair value of net tangible assets acquired is being amortized over an average life of 16 years on a straight-line basis.

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

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

Notes payable: The Company uses short-term borrowings to finance temporary liquidity needs and various financial activities conducted by its subsidiaries. The weighted average interest rates of notes payable at April 30, 1999 and 1998 were 4.9% and 5.6%, respectively.

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

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

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

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





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

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

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

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

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

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

Comprehensive income: In the first quarter of fiscal 1999, the Company adopted Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income" ("SFAS 130"). SFAS 130 establishes standards for reporting and display of comprehensive income and its components (revenues, expenses, gains and losses) in a full set of general-purpose financial statements. SFAS 130 requires that all changes in equity during the period, except those resulting from investments by and distributions to owners, be reported as "comprehensive income" in the financial statements. The adoption of SFAS 130 had no effect on the Company's consolidated financial statements.

Mortgage-backed securities: In the third quarter of fiscal 1999, the Company adopted Statement of Financial Accounting Standards No. 134, "Accounting for Mortgage-Backed Securities Retained after the Securitization of Mortgage Loans Held for Sale by a Mortgage Banking Enterprise" ("SFAS 134"). SFAS 134 requires that mortgage-backed securities or other interests retained after a securitization be classified based on the intent to sell or hold the investments. The Company has classified its retained interests as available-for-sale securities, which are included in investments in marketable securities on the consolidated balance sheets.

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





NET EARNINGS PER SHARE

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

| Year Ended April 30 | 1999 | 1998 | 1997 |
|---|---|---|---|
| Net earnings from continuing operations | $237,795 | $183,788 | $148,132 |
| Basic weighted average shares | 99,761 | 104,829 | 103,985 |
| Effect of dilutive securities: | | | |
| Common and convertible preferred stock options | 1,058 | 1,229 | 230 |
| Convertible preferred stock | 2 | 1,515 | 1,625 |
| Dilutive potential common shares | 100,821 | 107,573 | 105,840 |
| Net earnings per share from continuing operations: | | | |
| Basic | $2.38 | $1.75 | $1.42 |
| Diluted | 2.36 | 1.71 | 1.40 |

Diluted net earnings per share excludes the impact of common stock options of 149,370, 244,071 and 5,651,642 shares for 1999, 1998 and 1997, respectively, because the options' exercise prices were greater than the average market price of the common shares and therefore, the effect would be antidilutive.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents is comprised of the following:

| April 30 | 1999 | 1998 |
|---|---|---|
| Cash and interest-bearing deposits | $110,831 | $ 58,765 |
| Municipal bonds | 77,500 | 464,667 |
| Other interest-bearing securities | 2,525 | 4,870 |
| Certificates of deposit | 2,384 | 239,582 |
| Commercial paper | -- | 132,972 |
| | $193,240 | $900,856 |

MARKETABLE SECURITIES
The amortized cost and market value of marketable securities at April 30, 1999 and 1998 are summarized below:

| | 1999 | | | | 1998 | | | |
|---|---|---|---|---|---|---|---|---|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Market Value | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Market Value |
| Current: | | | | | | | | |
| Asset-backed securities | $ 45,038 | $ 1 | $ 28 | $ 45,011 | $151,383 | $ 18 | $ 208 | $151,193 |
| Corporate bonds | 9,300 | -- | -- | 9,300 | -- | -- | -- | -- |
| Municipal bonds and notes | 2,564 | 6 | -- | 2,570 | 149,842 | -- | 18 | 149,824 |
| Other debt investments | -- | -- | -- | -- | 45,000 | 141 | -- | 45,141 |
| Residual interests-trading | -- | -- | -- | -- | 54,082 | -- | -- | 54,082 |
| | 56,902 | 7 | 28 | 56,881 | 400,307 | 159 | 226 | 400,240 |
| Noncurrent: | | | | | | | | |
| Residual interests | 90,566 | 2,326 | 219 | 92,673 | -- | -- | -- | -- |
| Municipal bonds | 72,902 | 274 | 88 | 73,088 | 181,060 | 96 | 1,472 | 179,684 |
| Common stock | 2,419 | 2,362 | 14 | 4,767 | 2,467 | 2,118 | 2 | 4,583 |
| Corporate bonds | -- | -- | -- | -- | 68,790 | -- | 242 | 68,548 |
| U.S. Government obligations | -- | -- | -- | -- | 36,509 | -- | 228 | 36,281 |
| | 165,887 | 4,962 | 321 | 170,528 | 288,826 | 2,214 | 1,944 | 289,096 |
| | $222,789 | $4,969 | $349 | $227,409 | $689,133 | $2,373 | $2,170 | $689,336 |





All marketable securities at April 30, 1999 are classified as available-for-sale. Residual interests at April 30, 1998 were classified as trading securities. Proceeds from the sales of available-for-sale securities were $522,252, $1,321,716 and $23,852 during 1999, 1998 and 1997, respectively. Gross realized gains on those sales during 1999, 1998 and 1997 were $4,711, $1,826 and $600, respectively; gross realized losses were $587, $106 and $146, respectively.

Contractual maturities of available-for-sale debt securities at April 30, 1999 are presented below. Since expected maturities differ from contractual maturities due to the issuers' rights to prepay certain obligations or the seller's rights to call certain obligations, the first call date, put date or auction date for municipal bonds and notes is considered the contractual maturity date.

| | Amortized Cost | Market Value |
|---|---|---|
| Within one year | $ 56,902 | $ 56,881 |
| After one year through five years | 46,277 | 46,283 |
| After five years through 10 years | 9,297 | 9,431 |
| After 10 years | 17,328 | 17,374 |
| | $129,804 | $129,969 |

The Company securitized $2,456,910 in mortgage loans during the year ended April 30, 1999, resulting in residual interests with an allocated carrying value of $158,485. In April 1999, the Company securitized $91,355 of these residual interests in a net interest margin transaction. The remaining residual interests from the securitizations during 1999 of $39,782 were treated as noncash investing activities in the consolidated statement of cash flows for the year ended April 30, 1999.

RECEIVABLES
Receivables consist of the following:

| April 30 | 1999 | 1998 |
|---|---|---|
| Mortgage loans held for sale | $636,687 | $448,102 |
| Participation in refund anticipation loans | 51,074 | 39,165 |
| Credit card loans | -- | 202,852 |
| Other | 117,412 | 148,432 |
| | 805,173 | 838,551 |
| Allowance for doubtful accounts | 61,872 | 45,314 |
| | $743,301 | $793,237 |

PROPERTY AND EQUIPMENT
A summary of property and equipment follows:

| April 30 | 1999 | 1998 |
|---|---|---|
| Land | $ 3,060 | $ 2,872 |
| Buildings | 24,292 | 21,350 |
| Computers and other equipment | 226,388 | 180,273 |
| Leasehold improvements | 54,031 | 39,891 |
| | 307,771 | 244,386 |
| Less accumulated depreciation and amortization | 193,549 | 167,065 |
| | $114,222 | $ 77,321 |

Depreciation and amortization expense for 1999, 1998 and 1997 amounted to $49,302, $37,197 and $30,341, respectively.

LONG-TERM DEBT
On October 21, 1997, the Company issued $250,000 of 6 3/4% Senior Notes under a shelf registration statement. The Senior Notes are due November 1, 2004, and are not redeemable prior to maturity. The net proceeds of this transaction were used to repay short-term borrowings which initially funded the acquisition of Option One Mortgage Corporation ("Option One"). Based upon borrowing rates currently available to the Company for indebtness with similar terms, the fair value of the long-term debt was approximately $256,750 and $254,515 at April 30, 1999 and 1998, respectively.





OTHER NONCURRENT LIABILITIES
The Company has deferred compensation plans which permit directors and certain employees to defer portions of their compensation and accrue earnings on the deferred amounts. The compensation, together with Company matching of deferred amounts, has been accrued, and the only expenses related to these plans are the Company match and the earnings on the deferred amounts which are not

material to the financial statements. Included in other noncurrent liabilities is $33,628 and $29,885 at April 30, 1999 and 1998, respectively, to reflect the liability under these plans. The Company purchased whole-life insurance contracts on certain related directors and employees to recover distributions made or to be made under the plans and has recorded the cash surrender value of the policies in other assets. If all the assumptions regarding mortality, earnings, policy dividends and other factors are realized, the Company will ultimately realize its investment plus a factor for the use of its money.

STOCKHOLDERS' EQUITY

The Company is authorized to issue 6,000,000 shares of Preferred Stock, without par value. At April 30, 1999, the Company had 5,560,833 shares of authorized but unissued Preferred Stock. Of the unissued shares, 600,000 shares have been designated as Participating Preferred Stock in connection with the Company's shareholder rights plan.

On March 8, 1995, the Board of Directors authorized the issuance of a series of 500,000 shares of nonvoting Preferred Stock designated as Convertible Preferred Stock, without par value. In April 1995, 401,768 shares of Convertible Preferred Stock were issued in connection with an acquisition. 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, subject to adjustment upon certain events. The holders of the Convertible Preferred Stock are not entitled to receive dividends paid in cash, property or securities and, in the event of any dissolution, liquidation or winding-up of the Company, will share ratably with the holders of Common Stock then outstanding in the assets of the Company after any distribution or payments are made to the holders of Participating Preferred Stock or the holders of any other class or series of stock of the Company with preference over the Common Stock. In fiscal 1999, the Company issued 6,884 shares of its Common Stock upon conversion of 1,721 shares of the Convertible Preferred Stock.

COMPREHENSIVE INCOME

The Company's comprehensive income is comprised of net earnings, foreign currency translation adjustments and the change in the net unrealized gain or loss on marketable securities. Included in stockholders' equity at April 30, 1999 and 1998, the net unrealized holding gain on available-for-sale securities was $2,768 and $126, respectively, and the foreign currency translation adjustment was $(26,168) and $(24,643), respectively.

| Year Ended April 30 | 1999 | 1998 | 1997 |
|---|---|---|---|
| Net earnings | $215,366 | $392,130 | $47,755 |
| Unrealized gains on securities (less applicable taxes (benefit) of $1,619, ($736) and $96): | | | |
| Unrealized holding gains (losses) arising during period (less applicable taxes (benefit) of $3,186, ($82) and $268) | 5,199 | (134) | 439 |
| Less: Reclassification adjustment for gains included in earnings (less applicable taxes of $1,567, $654 and $172) | (2,557) | (1,066) | (282) |
| Foreign currency translation adjustments | (1,525) | (5,290) | (3,065) |
| Comprehensive income | $216,483 | $385,640 | $44,847 |

STOCK OPTION PLANS

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

The plan for eligible seasonal employees, as amended, provided for the grant of options on June 30, 1998, 1997 and 1996 at the market price on the date of the grant. The plan expired in December 1998, except for options outstanding thereunder, and was replaced by the Board of Directors with the 1999 Stock Option Plan for Seasonal Employees (subject to shareholder approval in September 1999). The options are exercisable during September through November in each of the two years following the calendar year of the grant.





Changes during the years ended April 30, 1999, 1998 and 1997 under these plans were as follows:

| | 1999 | | 1998 | | 1997 | |
|---|---|---|---|---|---|---|
| | Shares | Weighted-Average Exercise Price | Shares | Weighted-Average Exercise Price | Shares | Weighted-Average Exercise Price |
| Options outstanding, beginning of year | 5,110,392 | $32.71 | 6,217,699 | $35.78 | 6,413,928 | $37.93 |
| Options granted | 4,127,742 | 42.20 | 3,784,925 | 32.28 | 3,124,588 | 32.34 |
| Options exercised | (2,196,673) | 32.67 | (1,608,233) | 33.63 | (90,045) | 20.08 |
| Options which expired | (1,314,967) | 39.40 | (3,283,999) | 37.58 | (3,230,772) | 37.16 |
| Options outstanding, end of year | 5,726,494 | 38.03 | 5,110,392 | 32.71 | 6,217,699 | 35.78 |
| Shares exercisable, end of year | 3,505,737 | 37.62 | 3,428,615 | 32.87 | 4,506,372 | 36.00 |
| Shares reserved for future grants, end of year | 2,966,135 | | 13,159,852 | | 13,660,778 | |

A summary of stock options outstanding and exercisable at April 30, 1999 follows:

| | Outstanding | | | Exercisable | |
|---|---|---|---|---|---|
| Range of Exercise Prices | Number Outstanding at April 30 | Weighted-Average Remaining Contractual Life | Weighted-Average Exercise Price | Number Exercisable at April 30 | Weighted-Average Exercise Price |
| $13.2813 -- 16.25 | 4,720 | 1 year | $14.96 | 4,720 | $14.96 |
| $17.4375 -- 28.75 | 348,160 | 6 years | 26.86 | 264,827 | 26.61 |
| $30.6875 -- 39.875 | 2,011,968 | 6 years | 33.05 | 1,301,986 | 33.39 |
| $40.125 -- 47.375 | 3,330,646 | 6 years | 42.12 | 1,934,204 | 42.04 |
| $50.375 -- 51.6875 | 31,000 | 10 years | 50.63 | -- | -- |
| | 5,726,494 | | | 3,505,737 | |

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

| Year Ended April 30 | 1999 | 1998 | 1997 |
|---|---|---|---|
| Net earnings: | | | |
| As reported | $215,366 | $392,130 | $47,755 |
| Pro forma | 202,421 | 379,985 | 34,891 |

| | | | |
|---|---|---|---|
| Basic net earnings per share: | | | |
| As reported | $2.16 | $3.74 | $.46 |
| Pro forma | 2.03 | 3.62 | .34 |
| Diluted net earnings per share: | | | |
| As reported | $2.14 | $3.65 | $.45 |
| Pro forma | 2.01 | 3.55 | .33 |

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

For the purposes of computing the pro forma effects of stock option grants under the fair value accounting method, the fair value of each stock option grant was estimated on the date of the grant using the Black-Scholes option pricing model. The weighted-average fair value of stock options granted during 1999, 1998 and 1997 was $5.84, $5.91 and $6.14, respectively. The following weighted-average assumptions were used for grants during the following periods:

| Year Ended April 30 | 1999 | 1998 | 1997 |
|---|---|---|---|
| Risk-free interest rate | 5.41% | 6.21% | 6.28% |
| Expected life | 3 years | 3 years | 3 years |
| Expected volatility | 21.86% | 31.99% | 34.08% |
| Dividend yield | 2.36% | 2.48% | 2.42% |





SHAREHOLDER RIGHTS PLAN

On July 25, 1998, the rights under the July 1988 shareholder rights plan, as amended, expired and the rights under a shareholder rights plan adopted by the Company's Board of Directors on March 25, 1998 became effective. Like the 1988 plan, 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 one-hundredth of a share of a class of the Company's Participating Preferred Stock, without par value, at a price of $215.00, subject to adjustment. The registered holder of each Right then also 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 under the 1998 plan at a price of $.00125 per Right at any time prior to the earlier of (i) an Unapproved Stock Acquisition, or (ii) the expiration of the rights. The Rights under the new plan will expire on March 25, 2008, unless extended by the Board of Directors. Until a Right is exercised, the holder thereof, as such, will have no rights as a stockholder of the Company, including the right to vote or to receive dividends. The issuance of the Rights alone will have no dilutive effect and will not affect reported net earnings per share.

OTHER EXPENSES

Included in other expenses are the following:

| Year Ended April 30 | 1999 | 1998 | 1997 |
|---|---|---|---|
| Amortization of intangibles | $24,378 | $17,336 | $5,514 |
| Purchased services | 19,110 | 10,460 | 7,484 |
| Travel and entertainment | 15,094 | 11,548 | 9,642 |
| Refund anticipation loan servicing fees | 15,028 | 7,889 | 9,838 |
| Taxes and licenses | 14,531 | 11,392 | 10,467 |
| Legal and professional | 13,164 | 5,890 | 5,700 |
| Loan servicing | 11,158 | 5,851 | -- |

TAXES ON EARNINGS

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

| Year Ended April 30 | 1999 | 1998 | 1997 |
|---|---|---|---|
| United States | $381,443 | $285,100 | $221,494 |
| Foreign | 2,098 | 11,333 | 10,589 |
| | $383,541 | $296,433 | $232,083 |





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

| Year Ended April 30 | 1999 | 1998 | 1997 |
|---|---|---|---|
| Currently payable: | | | |
| Federal | $123,035 | $107,595 | $ 69,725 |
| State | 16,128 | 14,402 | 7,965 |
| Foreign | 1,553 | 5,483 | 5,041 |
| | 140,716 | 127,480 | 82,731 |
| Deferred: | | | |
| Federal | 5,114 | (12,047) | 1,153 |
| State | 670 | (1,613) | 132 |

| | | | |
|---|---|---|---|
| Foreign | (754) | (1,175) | (65) |
| | 5,030 | (14,835) | 1,220 |
| | $145,746 | $112,645 | $ 83,951 |

Provision is not made for possible income taxes payable upon distribution of unremitted earnings of foreign subsidiaries. Such unremitted earnings aggregated $60,647 at December 31, 1998. Management believes the cost to repatriate these earnings would not be material.

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

| Year Ended April 30 | 1999 | 1998 | 1997 |
|---|---|---|---|
| Statutory rate | 35.0% | 35.0% | 35.0% |
| Increases (reductions) in income taxes resulting from: | | | |
| State income taxes, net of Federal income tax benefit | 2.9% | 2.8% | 2.2% |
| Foreign income taxes, net of Federal income tax benefit | 0.2% | 0.5% | 0.6% |
| Nontaxable Federal income | (0.7%) | (0.1%) | (0.5%) |
| Other | 0.6% | (0.2%) | (1.2%) |
| Effective rate | 38.0% | 38.0% | 36.1% |

A summary of deferred taxes follows:

| April 30 | 1999 | 1998 |
|---|---|---|
| Gross deferred tax assets: | | |
| Accrued expenses | $(17,999) | $ (9,809) |
| Allowance for credit losses | (12,144) | (4,081) |
| Mark-to-market adjustments | (2,909) | (3,454) |
| Current | (33,052) | (17,344) |
| Deferred compensation | (14,577) | (12,047) |
| Depreciation | (5,222) | (2,633) |
| Residual interest income | -- | (2,167) |
| Noncurrent | (19,799) | (16,847) |
| Gross deferred tax liabilities: | | |
| Accrued income | 630 | 695 |
| Deferred loan fees | -- | 1,921 |
| Other | -- | 70 |
| Current | 630 | 2,686 |
| Deferred gain on sale of residual interests | 12,103 | -- |
| Residual interest income | 6,359 | -- |
| Mortgage servicing rights | 4,910 | 944 |
| Depreciation | 597 | 570 |
| Noncurrent | 23,969 | 1,514 |
| Net deferred tax assets | $(28,252) | $(29,991) |

ACQUISITIONS

During fiscal year 1999, the Company acquired six regional accounting firms and several smaller market firms. The purchase prices plus additional contingent payments aggregated $110,133. Each acquisition was accounted for as a purchase and, accordingly, results for each acquisition are included since the date of acquisition. The excess of cost over fair value of net tangible assets acquired was $99,857 and is being amortized on a straight-line basis over 15 years.

On March 5, 1999, the Company acquired Assurance Mortgage Corporation of America, a company engaged in the origination and sale of conventional mortgage loans. The Company issued 268,325 shares of its Common Stock from treasury, with a value of $11,860, for the purchase. The acquisition was accounted for as a purchase and, accordingly, its results are included since the date of acquisition. The issuance of Common Stock was treated as a noncash investing activity in the consolidated statement of cash flows for the year ended April 30, 1999. The excess of cost over fair value of net tangible assets acquired was $21,710 and is being amortized on a straight-line basis over 15 years.

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

During fiscal 1999, 1998 and 1997, the Company made other acquisitions which were accounted for as purchases. Their operations, which are not material, are included in the consolidated statements of earnings since the date of acquisition.

SALE OF SUBSIDIARIES

On January 29, 1999, the Company completed the sale of its credit card portfolio. The Company recorded a $20,939 loss, net of taxes, on the transaction. The consolidated statements of earnings reflect the Company's Credit Card operations segment as discontinued operations.

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

Revenues from discontinued operations for the years ended April 30, 1999, 1998, and 1997 were $24,143, $665,649 and $873,400, respectively.

COMMITMENTS AND CONTINGENCIES

Substantially all of the operations of the Company's subsidiaries are conducted in leased premises. Most of the operating leases are for a one-year period with renewal options of one to three years and provide for fixed monthly rentals. Lease commitments at April 30, 1999, for fiscal 2000, 2001, 2002, 2003 and 2004 aggregated $96,995, $77,209, $54,624, $25,655 and $14,136, respectively, with no significant commitments extending beyond that period of time. The Company's rent expense for the years 1999, 1998 and 1997 aggregated $99,654, $84,743 and $77,994, respectively.

Prior to March 31, 1999, the Company was obligated to purchase 60% of the mortgage loan volume which met certain criteria as established by the Company from a 40%-owned affiliate. The Company obtained majority-ownership of this affiliate on March 31, 1999. From May 1, 1998 to March 31, 1999 the Company had purchased $312,173 of such loans and all loan purchases after March 31, 1999 will be eliminated in consolidation. The Company also extended warehouse financing to this affiliate to facilitate the accumulation of mortgage loans, of which $68,434 was drawn at April 30, 1998.





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 $416,323 and $199,487 at April 30, 1999 and 1998, respectively. External market forces impact the probability of commitments being exercised, and therefore, total commitments outstanding do not necessarily represent future cash requirements.

At April 30, 1999, the Company maintained a $1,850,000 backup credit facility to support various financial activities conducted by its subsidiaries through a commercial paper program. The annual commitment fee required to support the availability of this facility is eight basis points per annum on the unused portion of the facility. Among other provisions, the credit agreement limits the Company's indebtedness.

The Company is responsible for servicing mortgage loans for others of $4,864,137, subservicing loans of $1,300,374, and the master servicing of $873,673 previously securitized mortgage loans held in trust at April 30, 1999. The mortgage loans held in trust are serviced by a related party. Fiduciary bank accounts that are maintained on behalf of investors and for impounded collections were $126,385 at April 30, 1999. These bank accounts are not assets of the Company and are not reflected in the accompanying consolidated financial statements.

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

FINANCIAL INSTRUMENTS

The Company sells short FNMA mortgage-backed securities to certain broker-dealer counterparties. The position on certain or all of the fixed rate mortgages is closed, on standard PSA settlement dates, when the Company enters into a forward commitment to sell those mortgages or decides to securitize the mortgages. The effectiveness of the hedge is measured by a historical and probable future high correlation of changes in the fair value of the hedging instruments with changes in the value of the hedged item. If correlation ceases to exist, hedge accounting is terminated and the gains or losses are recorded in revenues. Deferred gains on the FNMA securities hedging instrument amounted to $156 at April 30, 1999. The contract value and market value of this hedging instrument as of April 30, 1999 were $82,692 and $82,469, respectively. The contract value and market value of the forward commitment as of April 30, 1999 were $60,883 and $61,135, respectively.

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

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





QUARTERLY FINANCIAL DATA (UNAUDITED)

| | Fiscal 1999 Quarter Ended | | | | Fiscal 1998 Quarter Ended | | | |
|---|---|---|---|---|---|---|---|---|
| | April 30, 1999 | Jan. 31, 1999 | Oct. 31, 1998 | July 31, 1998 | April 30, 1998 | Jan. 31, 1998 | Oct. 31, 1997 | July 31, 1997 |
| Revenues | $1,196,997 | $291,482 | $ 85,613 | $ 70,573 | $967,591 | $198,776 | $ 73,584 | $ 30,030 |
| Continuing operations: | | | | | | | | |
| Earnings (loss) before income taxes (benefits) | $ 481,153 | $ (4,588) | $(50,249) | $(42,775) | $417,962 | $(23,931) | $(45,071) | $(52,527) |
| Taxes (benefits) on earnings | 182,818 | (1,743) | (19,094) | (16,235) | 158,826 | (9,094) | (17,572) | (19,515) |
| Net earnings (loss) | 298,335 | (2,845) | (31,155) | (26,540) | 259,136 | (14,837) | (27,499) | (33,012) |
| Net loss from discontinued operations | -- | (273) | (18) | (1,199) | (2,218) | (2,452) | (13,732) | (5,123) |
| Net gain (loss) on sale of discontinued operations | (961) | (19,978) | -- | -- | -- | 231,867 | -- | -- |
| Net earnings (loss) | $ 297,374 | $(23,096) | $(31,173) | $(27,739) | $256,918 | $214,578 | $(41,231) | $(38,135) |
| Basic net earnings per share: | | | | | | | | |
| Net earnings (loss) from continuing operations | $3.06 | $(.03) | $(.31) | $(.25) | $2.45 | $(.14) | $(.26) | $(.32) |
| Net earnings (loss) | $3.05 | $(.24) | $(.31) | $(.26) | $2.43 | $2.04 | $(.39) | $(.37) |
| Diluted net earnings per share: | | | | | | | | |
| Net earnings (loss) from continuing operations | $3.03 | $(.03) | $(.31) | $(.25) | $2.39 | $(.14) | $(.26) | $(.32) |
| Net earnings (loss) | $3.02 | $(.24) | $(.31) | $(.26) | $2.37 | $2.04 | $(.39) | $(.37) |

The accumulation of four quarters in fiscal 1999 and 1998 for net earnings per share does not equal the related per share amounts for the years ended April 30, 1999 and 1998 due to the repurchase of treasury shares, the timing of the exercise of stock options, the conversion of Convertible Preferred Stock, and the antidilutive effect of stock options in the first three quarters.

Revenues, earnings (loss) before income taxes (benefits), taxes (benefits) on earnings, net earnings and net earnings (loss) from discontinued operations for the first and second quarters of fiscal 1999 and for all quarters of fiscal 1998 differs from the amount reported on Form 10-Qs for the respective periods due to reclassification of the credit card segment as discontinued operations.

SUBSEQUENT EVENTS (UNAUDITED)

On June 29, 1999, the Company announced it had signed an Asset Purchase Agreement ("Purchase Agreement") under which it would acquire substantially all of the non-attest assets of McGladrey & Pullen LLP ("M&P"), the nation's seventh largest accounting and consulting firm. Under the terms of the Purchase Agreement, a newly formed subsidiary of the Company ("Subsidiary") will purchase a majority of M&P's non-attest assets for $240,000 in cash payments over four years, the payment of certain pension liabilities with a present value of approximately $50,000, and additional contingent payments based on future performance. The Purchase Agreement provides for the Subsidiary to enter into an administrative services agreement with M&P (which will continue as a separate, independent partnership to perform attest services for its clients) to provide support services on a fee basis and to enter into separate employment agreements with certain partners and principals of M&P to perform non-attest services for the Subsidiary. The Purchase Agreement further provides for the Company to guarantee the payment of the purchase price and the pension liabilities. The Company intends to fund the acquisition from internally generated funds. The acquisition, which is subject to applicable regulatory approvals and compliance and other normal closing conditions, is expected to be completed in August 1999 and will be accounted for as a purchase. Upon closing, the Subsidiary will be included in the Company's Business services segment.

M&P reported revenues of $328,000 for the year ended April 30, 1999. Assuming the acquisition had taken place on May 1, 1998, the Company would have reported revenues from non-attest services of $201,100 and pretax earnings before goodwill amortization of $32,000.





SUMMARIZED FINANCIAL INFORMATION

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

| April 30 | 1999 | 1998 |
|---|---|---|
| Condensed balance sheets: | | |
| Cash and cash equivalents | $ 16,026 | $ 30,895 |
| Finance receivables, net | 658,882 | 737,005 |
| Other assets | 448,010 | 311,759 |
| Total assets | $1,122,918 | $1,079,659 |
| Notes payable | $ 71,939 | $ 643,002 |
| Long-term debt | 249,725 | 249,675 |
| Other liabilities | 636,330 | 57,372 |
| Stockholder's equity | 164,924 | 129,610 |
| Total liabilities and stockholder's equity | $1,122,918 | $1,079,659 |

| Year Ended April 30 | 1999 | 1998 | 1997 |
|---|---|---|---|
| Condensed statements of operations: | | | |
| Revenues | $ 386,938 | $ 209,334 | $ 79,317 |
| Earnings from operations | 69,419 | 28,447 | 7,571 |
| Earnings before income taxes | 65,642 | 28,401 | 7,571 |
| Net earnings | 19,280 | 13,719 | 500 |

SEGMENT INFORMATION

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

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

International tax operations: This segment is primarily engaged in providing tax return preparation, filing, and related services to the general public in Canada, Australia and the United Kingdom. In addition, International tax operations has franchise offices in 10 countries. Tax-related service revenue includes fees from company-owned tax offices and royalties from franchised offices. Revenues of this segment are seasonal in nature.

Mortgage operations: This segment is primarily engaged in the origination, purchase, servicing, securitization and sale of nonconforming and conforming mortgage loans in the United States. Mortgage origination services are offered through a network of mortgage brokers in 49 states and through H&R Block offices in 4 states.

Business services: This segment is primarily engaged in providing accounting, tax and consulting services to business clients and tax, estate planning and financial planning services to individuals. This segment offers services through regional accounting firms based in six cities in the United States. Revenues of this segment are seasonal in nature.

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





Information concerning the Company's operations by reportable segment for the years ended April 30, 1999, 1998 and 1997 is as follows:

| | 1999 | 1998 | 1997 |
|---|---|---|---|
| REVENUES: | | | |
| U.S. tax operations | $1,258,234 | $1,047,324 | $ 966,524 |
| International tax operations | 74,714 | 81,754 | 87,493 |
| Mortgage operations | 255,944 | 135,778 | 8,895 |
| Business services | 47,257 | -- | -- |
| Unallocated corporate | 8,516 | 5,125 | 3,498 |
| Total revenues | $1,644,665 | $1,269,981 | $1,066,410 |
| EARNINGS FROM CONTINUING OPERATIONS: | | | |
| U.S. tax operations | $ 314,113 | $ 252,247 | $ 210,365 |
| International tax operations | 2,514 | 11,922 | 14,172 |
| Mortgage operations | 62,749 | 30,811 | 865 |
| Business services | 7,089 | -- | -- |
| Unallocated corporate | (17,401) | (10,413) | (4,189) |
| Investment income, net | 32,234 | 25,597 | 10,870 |
| Interest expense on long-term debt | (17,757) | (13,731) | -- |
| Earnings from continuing operations before income taxes | $ 383,541 | $ 296,433 | $ 232,083 |
| DEPRECIATION AND AMORTIZATION: | | | |
| U.S. tax operations | $ 49,380 | $ 37,313 | $ 31,981 |
| International tax operations | 5,741 | 4,541 | 3,594 |
| Mortgage operations | 15,764 | 12,690 | 56 |
| Business services | 3,340 | -- | -- |
| Unallocated corporate | 380 | 428 | 390 |
| Total depreciation and amortization | $ 74,605 | $ 54,972 | $ 36,021 |
| IDENTIFIABLE ASSETS: | | | |
| U.S. tax operations | $ 268,650 | $ 200,243 | $ 189,007 |
| International tax operations | 55,684 | 48,362 | 39,145 |
| Mortgage operations | 1,033,261 | 829,396 | 125,734 |
| Business services | 146,252 | -- | -- |
| Unallocated corporate | 406,329 | 1,623,670 | 577,976 |
| Discontinued credit card operations | -- | 202,412 | 253,052 |
| Net assets of discontinued operations | -- | -- | 522,144 |
| Total assets | $1,910,176 | $2,904,083 | $1,707,058 |
| CAPITAL EXPENDITURES: | | | |
| U.S. tax operations | $ 63,354 | $ 36,495 | $ 38,760 |
| International tax operations | 7,709 | 7,013 | 4,773 |
| Mortgage operations | 7,478 | 4,736 | 205 |

| | | | |
|---|---|---|---|
| Business services | 1,137 | -- | -- |
| Unallocated corporate | 691 | 1,513 | 279 |
| Total capital expenditures | $ 80,369 | $ 49,757 | $ 44,017 |





MANAGEMENT'S REPORT

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

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

PricewaterhouseCoopers LLP, independent accountants, audited H&R Block's 1999 consolidated financial statements and issued an opinion thereon. Their audit was made in accordance with generally accepted auditing standards and includes an objective, independent review of the system of internal controls to the extent necessary to express an opinion on the financial statements.

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

/s/ Frank L. Salizzoni
Frank L. Salizzoni
President and Chief Executive Officer

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

INDEPENDENT AUDITORS' REPORT

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

In our opinion, the accompanying consolidated balance sheet as of April 30, 1999 and the related consolidated statements of earnings, 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, 1999, and the results of their operations and their cash flows for the year then ended, in conformity with generally accepted accounting principles. 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 audit. We conducted our audit of these statements in accordance with generally accepted auditing standards which 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 audit provides a reasonable basis for the opinion expressed above. The financial statements of the Company as of April 30, 1998 and for each of the two years in the period then ended were audited by other independent accountants whose report dated June 16, 1998 and July 12, 1999 (as to the effects of the discontinued credit card operations described in the note on the sale of subsidiaries) expressed an unqualified opinion on those statements.

/s/ PRICEWATERHOUSECOOPERS LLP
Kansas City, Missouri
June 15, 1999





INDEPENDENT AUDITORS' REPORT

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

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

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

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

/s/ Deloitte & Touche LLP

Kansas City, Missouri
June 16, 1998
(July 12, 1999 as to the effects of the discontinued credit card operations described in the note on the sale of subsidiaries)



COMMON STOCK DATA

| | Stock Price | | Cash Dividend |
|---|---|---|---|
| | High | Low | Paid per Share |
| 1998 FISCAL YEAR: | | | |
| Quarter ended 7/31/97 | 38 1/2 | 30 5/8 | .20 |
| Quarter ended 10/31/97 | 42 1/4 | 33 3/4 | .20 |
| Quarter ended 1/31/98 | 45 3/4 | 37 3/8 | .20 |
| Quarter ended 4/30/98 | 49 1/16 | 42 7/8 | .20 |
| 1999 FISCAL YEAR: | | | |
| Quarter ended 7/31/98 | 45 5/8 | 41 5/16 | .20 |
| Quarter ended 10/31/98 | 47 1/8 | 35 5/16 | .25 |
| Quarter ended 1/31/99 | 48 1/4 | 40 3/8 | .25 |
| Quarter ended 4/30/99 | 51 3/4 | 40 1/4 | .25 |

Traded on the New York Stock Exchange Ticker Symbol: HRB

SELECTED FINANCIAL DATA

Amounts in thousands, except per share amounts and number of shareholders

| Year Ended April 30 | 1999 | 1998 | 1997 | 1996 | 1995 |
|---|---|---|---|---|---|
| FOR THE YEAR: | | | | | |
| Total revenues | $1,644,665 | $1,269,981 | $1,066,410 | $ 846,987 | $ 752,637 |
| Net earnings from continuing operations(1) | $ 237,795 | $ 183,788 | $ 148,132 | $ 126,669 | $ 98,034 |
| Net earnings(1) | $ 215,366 | $ 392,130 | $ 47,755 | $ 177,168 | $ 107,259 |
| AT YEAR END: | | | | | |
| Total assets | $1,910,176 | $2,904,083 | $1,707,058 | $1,755,891 | $1,097,313 |
| Cash, cash equivalents and marketable securities | $ 420,649 | $1,590,192 | $ 539,107 | $ 745,693 | $ 444,981 |
| Long-term debt | $ 249,725 | $ 249,675 | -- | -- | -- |
| Stockholders' equity | $1,061,987 | $1,341,632 | $ 999,097 | $1,039,593 | $ 685,865 |
| Shares outstanding | 97,629 | 106,981 | 104,067 | 103,417 | 104,863 |
| Number of shareholders | 34,624 | 31,177 | 33,517 | 35,634 | 38,053 |
| MEASUREMENTS: | | | | | |
| Per basic share of common stock: | | | | | |
| Net earnings from continuing operations(1) | $ 2.38 | $ 1.75 | $ 1.42 | $ 1.22 | $ .93 |
| Net earnings(1) | $ 2.16 | $ 3.74 | $ .46 | $ 1.70 | $ 1.02 |
| Per diluted share of common stock: | | | | | |
| Net earnings from continuing operations(1) | $ 2.36 | $ 1.71 | $ 1.40 | $ 1.19 | $ .93 |
| Net earnings(1) | $ 2.14 | $ 3.65 | $ .45 | $ 1.67 | $ 1.01 |
| Other per share data: | | | | | |
| Cash dividends declared | $ .95 | $ .80 | $ 1.04 | $ 1.27 1/4 | $ 1.21 3/4 |
| Net tangible book value | $ 6.72 | $ 9.84 | $ 8.88 | $ 9.46 | $ 5.79 |
| Return on total revenues(2) | 14.5% | 14.5% | 13.9% | 15.0% | 13.0% |
| Return on beginning stockholders' equity | 16.1% | 39.2% | 4.6% | 25.8% | 15.2% |

(1) Fiscal 1995 includes a charge to earnings from discontinued operations of $83,508 ($.79 per basic share and $.78 per diluted share) for purchased research and development in connection with a previous acquisition.

(2) Before charge for purchased research and development.

EXHIBIT 21

SUBSIDIARIES OF H&R BLOCK, INC.

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

| NAME | JURISDICTION IN WHICH ORGANIZED |
|---|---|
| H&R Block Group, Inc. ........................ | Delaware (1) |
| Block Investment Corporation .................. | Delaware (1) |
| HRB Management, Inc. .......................... | Missouri (2) |
| Companion Insurance, Ltd. ..................... | Bermuda (3) |
| H&R Block Tax and Financial Services Limited ... | United Kingdom (3) |
| H&R Block Tax Services, Inc. .................. | Missouri (2) |
| H&R Block Eastern Tax Services, Inc. .......... | Missouri (4) |
| H&R Block of Dallas, Inc. ..................... | Texas (4) |
| HRB Partners, Inc. ............................ | Delaware (5) |
| H&R Block and Associates, L.P. ................ | Delaware (6) |
| HRB Royalty, Inc. ............................. | Delaware (4) |
| H&R Block Limited ............................. | New South Wales (7) |
| BWA Advertising, Inc. ......................... | Missouri (4) |
| H&R Block Canada, Inc. ........................ | Canada (4) |
| H&R Block (Nova Scotia), Incorporated ......... | Nova Scotia (8) |
| Cashplan Systems, Inc. ........................ | British Columbia (8) |
| H&R Block (Guam), Inc. ........................ | Guam (4) |
| Block Financial Corporation ................... | Delaware (2) |
| Franchise Partner, Inc. ....................... | Nevada (9) |
| H&R Block Financial Advisors, Inc ............. | Delaware (9) |
| Birchtree Financial Services, Inc. ............ | Oklahoma (9) |
| H&R Block Insurance Services, Inc. ............ | Delaware (9) |
| HRB Financial Services, Inc. .................. | Delaware (9) |
| Companion Mortgage Corporation. ............... | Delaware (9) |
| Block Mortgage Finance, Inc. .................. | Delaware (10) |
| Option One Mortgage Corporation ............... | California (9) |
| Option One Mortgage Acceptance Corporation ..... | Delaware (11) |
| Option One Mortgage Securities Corp. .......... | Delaware (11) |
| Premier Trust Deed Services, Inc. ............. | California (11) |
| Premier Mortgage Services of Washington, Inc. .. | Washington (11) |
| H&R Block Home Loans, Inc. .................... | California (11) |
| H&R Block Mortgage Corporation ................ | Ontario (11) |
| Option One Direct Insurance Agency, Inc. ....... | California (11) |
| Assurance Mortgage Corporation of America ...... | Massachusetts (11) |
| NCS Mortgage Services, L.L.C. ................. | Georgia (12) |
| NCS Mortgage Services II, L.L.C. .............. | Georgia (12) |
| HRB Business Services, Inc. ................... | Delaware (2) |
| Block Holdings, Inc. .......................... | Illinois (13) |
| C.W. Amos Business Services, Inc. ............. | Delaware (13) |
| DMJK Business Services, Inc. .................. | Missouri (13) |
| FERS Business Services, Inc. .................. | Delaware (13) |



| | |
|---|---|
| FERS Personal Financial Services, Inc.......... | Delaware (13) |
| FM Business Services, Inc...................... | Delaware (13) |
| Freed Maxick ABL Services, Inc................. | Delaware (13) |
| KSM Business Services, Inc..................... | Delaware (13) |
| Practice Development Institute, Inc............ | Delaware (13) |
| WS Business Services, Inc...................... | Delaware (13) |

| | |
|---|---|
| RP Business Services, Inc...................... | Delaware (13) |
| RSM McGladrey, Inc............................ | Delaware (13) |
| Rex Investments, Inc.......................... | Texas (14) |
| C.W. Amos Investment Advisors, LLC ............ | Maryland (15) |

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 Tax Services, Inc.
(5) Wholly owned subsidiary of H&R Block of Dallas, Inc.
(6) Limited partnership in which H&R Block Tax Services, Inc. is a 1% general partner and HRB Partners, Inc. is a 99% limited partner
(7) Wholly owned subsidiary of HRB Royalty, Inc.
(8) Wholly owned subsidiary of H&R Block Canada, Inc.
(9) Wholly owned subsidiary of Block Financial Corporation
(10) Wholly owned subsidiary of Companion Mortgage Corporation
(11) Wholly owned subsidiary of Option One Mortgage Corporation
(12) Limited liability company in which Block Financial Corporation has a 96.25% membership interest and non-affiliated individuals having a combined 3.75% membership interest.
(13) Wholly owned subsidiary of HRB Business Services, Inc.
(14) Wholly owned subsidiary of WS Business Services, Inc.
(15) Limited liability company in which C.W. Amos Business Services, Inc. has a 100% membership interest.

EXHIBIT 23(A)

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (Nos. 33-185, 33-33889, 33-54989, 33-64147, 333-62515 and 333-42143) of H&R Block, Inc. of our reports dated June 15, 1999 relating to the consolidated financial statements and financial statement schedule, which are incorporated by reference in and appear in this Form 10-K, respectively.

/s/PricewaterhouseCoopers LLP
Kansas City, Missouri
July 28, 1999

EXHIBIT 23(B)

INDEPENDENT AUDITORS' CONSENT AND REPORT ON SCHEDULE

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

We consent to the incorporation by reference in Post-Effective Amendment No. 4 to Registration Statement No. 33-185 of H&R Block, Inc. and subsidiaries (relating to shares of Common Stock issued under the 1984 Long-Term Executive Compensation Plan) on Form S-8, Registration Statement No. 33-33889 of H&R Block, Inc. and subsidiaries (relating to shares of Common Stock issuable under the 1989 Stock Option Plan for Outside Directors) on Form S-8, Registration Statement No. 33-54989 of H&R Block, Inc. and subsidiaries (relating to shares of Common Stock issued under the 1993 Long-Term Executive Compensation Plan) on Form S-8, Registration Statement No. 33-64147 of H&R Block, Inc. and subsidiaries (relating to shares of Delayed Convertible Preferred Stock issuable under the Spry, Inc. 1995 Stock Option Plan) on Form S-8, Registration Statement No. 333-62515 of H&R Block, Inc. and subsidiaries (relating to shares of Common Stock issuable under the Third Stock Option Plan for Seasonal Employees) on Form S-8, and Registration Statement No. 333-42143 of H&R Block, Inc. and subsidiaries (relating to shares of Common Stock issued under the H&R Block Stock Plan for Non-Employee Directors) on Form S-8 of our report dated June 16, 1998 (July 12, 1999 as to the effects of the discontinued credit card operations described in the note on the sale of subsidiaries), appearing in this Annual Report on Form 10-K of H&R Block, Inc. and subsidiaries for the year ended April 30, 1999.

Our audits of the consolidated financial statements referred to in our aforementioned report also included the 1997 and 1998 financial statement schedule of H&R Block, Inc. and subsidiaries, listed in Item 14. This financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion based on our audits. In our opinion, such 1997 and 1998 financial statement schedule when considered in relation to the basic financial statements taken as a whole, present fairly in all material respects the information set forth therein.

/s/Deloitte & Touche LLP

Kansas City, Missouri
July 28, 1999

<ARTICLE> 5
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THE SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE
CONSOLIDATED BALANCE SHEETS AND THE CONSOLIDATED STATEMENTS OF OPERATIONS AND IS
QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.
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