

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended October 31, 2004

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number 1-6089



H&R BLOCK, INC.

(Exact name of registrant as specified in its charter)

MISSOURI
(State or other jurisdiction of
incorporation or organization)

44-0607856
(I.R.S. Employer
Identification No.)

4400 Main Street
Kansas City, Missouri 64111
(Address of principal executive offices, including zip code)

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

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

Yes No

The number of shares outstanding of the registrant's Common Stock, without par value, at the close of business on November 30, 2004 was 164,718,239 shares.

H&R BLOCK, INC.
Form 10-Q for the Period Ended October 31, 2004

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H&R BLOCK, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS
Amounts in thousands, except share amounts

| | October 31, 2004 | April 30, 2004 |
|---|---------------------|---------------------|
| | (Unaudited) | |
| ASSETS | | |
| Cash and cash equivalents | \$ 575,796 | \$ 1,071,676 |
| Cash and cash equivalents – restricted | 496,798 | 545,428 |
| Receivables from customers, brokers, dealers and clearing organizations, net | 610,039 | 625,076 |
| Receivables, net | 368,072 | 347,910 |
| Prepaid expenses and other current assets | 432,335 | 371,209 |
| Total current assets | 2,483,040 | 2,961,299 |
| Residual interests in securitizations – available-for-sale | 261,503 | 210,973 |
| Beneficial interest in Trusts – trading | 108,624 | 137,757 |
| Mortgage servicing rights | 134,062 | 113,821 |
| Property and equipment, at cost less accumulated depreciation and amortization of \$621,587 and \$579,535 | 275,688 | 279,220 |
| Intangible assets, net | 299,851 | 325,829 |
| Goodwill, net | 964,548 | 959,418 |
| Other assets | 369,542 | 391,709 |
| Total assets | <u>\$ 4,896,858</u> | <u>\$ 5,380,026</u> |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Liabilities: | | |
| Commercial paper | \$ 316,056 | \$ — |
| Current portion of long-term debt | 277,546 | 275,669 |
| Accounts payable to customers, brokers and dealers | 1,000,083 | 1,065,793 |
| Accounts payable, accrued expenses and other | 483,996 | 456,167 |
| Accrued salaries, wages and payroll taxes | 115,249 | 268,747 |
| Accrued income taxes | 88,784 | 405,667 |
| Total current liabilities | 2,281,714 | 2,472,043 |
| Long-term debt | 931,781 | 545,811 |
| Other noncurrent liabilities | 368,696 | 465,163 |
| Total liabilities | <u>3,582,191</u> | <u>3,483,017</u> |
| Stockholders' equity: | | |
| Common stock, no par, stated value \$.01 per share, 800,000,000 shares authorized, 217,945,398 shares issued at October 31, 2004 and April 30, 2004 | 2,179 | 2,179 |
| Additional paid-in capital | 558,770 | 545,065 |
| Accumulated other comprehensive income | 99,589 | 57,953 |
| Retained earnings | 2,615,089 | 2,781,368 |
| Less cost of 54,469,436 and 44,849,128 shares of common stock in treasury | (1,960,960) | (1,489,556) |
| Total stockholders' equity | <u>1,314,667</u> | <u>1,897,009</u> |
| Total liabilities and stockholders' equity | <u>\$ 4,896,858</u> | <u>\$ 5,380,026</u> |

See Notes to Condensed Consolidated Financial Statements

H&R BLOCK, INC.

CONDENSED CONSOLIDATED INCOME STATEMENTS
Unaudited, amounts in thousands, except per share amounts

| | Three months ended October 31, | | Six months ended October 31, | |
|--|-----------------------------------|------------------|---------------------------------|------------------|
| | 2004 | 2003 | 2004 | 2003 |
| Revenues: | | | | |
| Service revenues | \$277,289 | \$247,740 | \$ 517,046 | \$ 462,698 |
| Gains on sales of mortgage loans, net | 184,555 | 250,558 | 366,648 | 459,955 |
| Interest income | 45,889 | 46,615 | 82,593 | 90,503 |
| Other | 31,522 | 23,959 | 55,679 | 51,100 |
| | <u>539,255</u> | <u>568,872</u> | <u>1,021,966</u> | <u>1,064,256</u> |
| Operating expenses: | | | | |
| Cost of services | 318,833 | 282,926 | 608,035 | 534,577 |
| Interest | 21,063 | 19,899 | 40,153 | 43,096 |
| Selling, general and administrative | 286,793 | 250,077 | 535,784 | 453,479 |
| | <u>626,689</u> | <u>552,902</u> | <u>1,183,972</u> | <u>1,031,152</u> |
| Operating income (loss) | (87,434) | 15,970 | (162,006) | 33,104 |
| Other income, net | 1,510 | 1,164 | 3,518 | 2,859 |
| Income (loss) before taxes | (85,924) | 17,134 | (158,488) | 35,963 |
| Income taxes (benefit) | (33,725) | 6,758 | (62,206) | 14,068 |
| Net income (loss) before cumulative effect of change in accounting principle | (52,199) | 10,376 | (96,282) | 21,895 |
| Cumulative effect of change in accounting principle for multiple deliverable revenue arrangements, less tax benefit of \$4,031 | — | — | — | (6,359) |
| Net income (loss) | <u>\$ (52,199)</u> | <u>\$ 10,376</u> | <u>\$ (96,282)</u> | <u>\$ 15,536</u> |
| Basic earnings (loss) per share: | | | | |
| Before change in accounting principle | \$ (.32) | \$.06 | \$ (.58) | \$.12 |
| Cumulative effect of change in accounting principle | — | — | — | (.03) |
| Net income (loss) | <u>\$ (.32)</u> | <u>\$.06</u> | <u>\$ (.58)</u> | <u>\$.09</u> |
| Diluted earnings (loss) per share: | | | | |
| Before change in accounting principle | \$ (.32) | \$.06 | \$ (.58) | \$.12 |
| Cumulative effect of change in accounting principle | — | — | — | (.03) |
| Net income (loss) | <u>\$ (.32)</u> | <u>\$.06</u> | <u>\$ (.58)</u> | <u>\$.09</u> |
| Dividends per share | \$.22 | \$.20 | \$.42 | \$.38 |

See Notes to Condensed Consolidated Financial Statements

H&R BLOCK, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
Unaudited, amounts in thousands

| Six months ended October 31, | 2004 | 2003 |
|--|-------------------|-------------------|
| Cash flows from operating activities: | | |
| Net income (loss) | \$ (96,282) | \$ 15,536 |
| Adjustments to reconcile net income (loss) to net cash used in operating activities: | | |
| Depreciation and amortization | 76,768 | 76,010 |
| Accretion of residual interests in securitizations | (57,835) | (70,906) |
| Impairments of residual interests in securitizations | 3,469 | 11,106 |
| Additions to trading securities — residual interests in securitizations | (68,618) | (199,021) |
| Proceeds from net interest margin transactions, net | 53,348 | 147,107 |
| Additions to mortgage servicing rights | (58,894) | (48,002) |
| Amortization of mortgage servicing rights | 38,653 | 35,307 |
| Net change in beneficial interest in Trusts | 29,133 | (62,823) |
| Other, net of acquisitions | (594,829) | (367,664) |
| Net cash used in operating activities | (675,087) | (463,350) |
| Cash flows from investing activities: | | |
| Cash received from residual interests in securitizations | 73,477 | 68,850 |
| Purchases of property and equipment, net | (55,249) | (43,591) |
| Payments made for business acquisitions, net of cash acquired | (5,472) | (123,337) |
| Other, net | 12,138 | 6,691 |
| Net cash provided by (used in) investing activities | 24,894 | (91,387) |
| Cash flows from financing activities: | | |
| Repayments of commercial paper | (1,376,877) | (499,771) |
| Proceeds from issuance of commercial paper | 1,692,933 | 624,401 |
| Proceeds from issuance of long-term debt, net | 395,221 | — |
| Proceeds from securitization financing | — | 50,100 |
| Payments on acquisition debt | (11,605) | (45,100) |
| Dividends paid | (69,997) | (68,087) |
| Acquisition of treasury shares | (529,558) | (178,847) |
| Proceeds from issuance of common stock | 53,933 | 59,851 |
| Other, net | 263 | (1,833) |
| Net cash provided by (used in) financing activities | 154,313 | (59,286) |
| Net decrease in cash and cash equivalents | (495,880) | (614,023) |
| Cash and cash equivalents at beginning of the period | 1,071,676 | 875,353 |
| Cash and cash equivalents at end of the period | \$ 575,796 | \$ 261,330 |

See Notes to Condensed Consolidated Financial Statements

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS*Unaudited***1. Basis of Presentation**

The condensed consolidated balance sheet as of October 31, 2004, the condensed consolidated income statements for the three and six months ended October 31, 2004 and 2003, and the condensed consolidated statements of cash flows for the six months ended October 31, 2004 and 2003 have been prepared by the Company, without audit. In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position, results of operations and cash flows at October 31, 2004 and for all periods presented have been made.

“H&R Block,” “the Company,” “we,” “our” and “us” are used interchangeably to refer to H&R Block, Inc. or to H&R Block, Inc. and its subsidiaries, as appropriate to the context.

Certain reclassifications have been made to prior year amounts to conform to the current year presentation. Most notably, during the quarter we reclassified amounts previously reported as interest income to gains on sales of mortgage loans. Amounts reclassified for the three months ended July 31, 2004 and the three and six months ended October 31, 2003 totaled \$44.6 million, \$41.3 million and \$68.3 million, respectively. These reclassifications had no effect on the results of operations or stockholders’ equity as previously reported.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted. These condensed consolidated financial statements should be read in conjunction with the financial statements and notes thereto included in our April 30, 2004 Annual Report to Shareholders on Form 10-K and our July 31, 2004 Form 10-Q.

Operating revenues of the Tax Services and Business Services segments are seasonal in nature with peak revenues occurring in the months of January through April. Therefore, results for interim periods are not indicative of results to be expected for the full year.

We file our Federal and state income tax returns on a calendar year basis. The condensed consolidated income statements reflect the effective tax rates expected to be applicable for the respective full fiscal years.

2. Earnings (Loss) Per Share

Basic earnings (loss) per share is computed using the weighted average shares outstanding during each period. The dilutive effect of potential common shares is included in diluted earnings (loss) per share except in those periods with a loss. The computations of basic and diluted earnings (loss) per share are as follows:

(in 000s, except per share amounts)

| | Three months ended October 31, | | Six months ended October 31, | |
|---|-----------------------------------|-----------|---------------------------------|-----------|
| | 2004 | 2003 | 2004 | 2003 |
| Net income (loss) before change in accounting principle | \$ (52,199) | \$ 10,376 | \$ (96,282) | \$ 21,895 |
| Basic weighted average common shares | 164,686 | 177,828 | 166,721 | 178,616 |
| Dilutive potential shares from stock options and restricted stock | — | 3,282 | — | 3,348 |
| Convertible preferred stock | — | 1 | — | 1 |
| Dilutive weighted average common shares | 164,686 | 181,111 | 166,721 | 181,965 |
| Earnings (loss) per share before change in accounting principle: | | | | |
| Basic and diluted | \$ (.32) | \$.06 | \$ (.58) | \$.12 |

Diluted earnings per share excludes the impact of shares of common stock issuable upon the exercise of options to purchase 17.6 million shares of stock for the three and six months ended October 31, 2004, as the effect would be antidilutive due to the net loss recorded during the periods. Diluted earnings per share for the three and six months ended October 31, 2003 excludes the impact of 4.1 million shares and 6.5 million shares, respectively, issuable upon the exercise of stock options, as the effect would be

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antidilutive due to the options' exercise prices being greater than the average market price of the common shares during the period.

The weighted average shares outstanding for the three and six months ended October 31, 2004 decreased to 164.7 million and 166.7 million, respectively, from 177.8 million and 178.6 million last year, respectively, primarily due to our purchases of treasury shares. The effect of these purchases was partially offset by the issuance of treasury shares related to our stock-based compensation plans.

During the six months ended October 31, 2004 and 2003, we issued 1.7 million shares and 2.2 million shares, respectively, of common stock pursuant to the exercise of stock options, employee stock purchases and awards of restricted shares, in accordance with our stock-based compensation plans.

During the six months ended October 31, 2004, we acquired 11.3 million shares of our common stock, of which 11.2 million shares were purchased from third parties with the remaining shares swapped or surrendered to us, at an aggregate cost of \$529.6 million. During the six months ended October 31, 2003, we acquired 4.2 million shares of our common stock, of which 4.1 million shares were purchased from third parties with the remaining shares swapped or surrendered to us, at an aggregate cost of \$178.8 million.

3. Mortgage Banking Activities

Activity related to available-for-sale residual interests in securitizations consists of the following:

| | (in 000s) | |
|--|------------------|------------------|
| Six months ended October 31, | 2004 | 2003 |
| Balance, beginning of period | \$210,973 | \$264,337 |
| Additions from net interest margin (NIM) transactions | 15,270 | 1,814 |
| Additions from NIM secured financing, held as collateral | — | 40,196 |
| Cash received | (73,477) | (68,850) |
| Accretion | 57,835 | 70,906 |
| Impairments of fair value | (3,469) | (11,106) |
| Other | — | (2,603) |
| Changes in unrealized holding gains arising during the period, net | 54,371 | 22,910 |
| Balance, end of period | <u>\$261,503</u> | <u>\$317,604</u> |

We sold \$13.3 billion and \$11.6 billion of mortgage loans in whole loan sales to third-party trusts (Trusts) or other buyers during the six months ended October 31, 2004 and 2003, respectively, with gains totaling \$370.1 million and \$471.1 million, respectively, recorded on these sales.

Residual interests valued at \$68.6 million and \$199.0 million were securitized in NIM transactions during the six months ended October 31, 2004 and 2003, respectively, with net cash proceeds of \$53.3 million and \$147.1 million received, respectively. In the prior year, additional cash proceeds of \$50.1 million were received as a result of a secured financing (on-balance sheet securitization). Total net additions to residual interests from NIM transactions for the six months ended October 31, 2004 and 2003 were \$15.3 million and \$1.8 million, respectively.

Cash flows of \$73.5 million and \$68.9 million were received from the securitization trusts for the six months ended October 31, 2004 and 2003, respectively. Cash received on residual interests is included in investing activities in the condensed consolidated statements of cash flows.

Aggregate net unrealized gains on residual interests, which had not yet been accreted into income, totaled \$166.7 million at October 31, 2004 and \$112.5 million at April 30, 2004. These unrealized gains are recorded net of deferred taxes in other comprehensive income, and may be recognized in income in future periods either through accretion or upon further securitization or sale of the related residual interest.

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Activity related to mortgage servicing rights (MSRs) consists of the following:

(in 000s)

| Six months ended October 31, | 2004 | 2003 |
|------------------------------|------------------|------------------|
| Balance, beginning of period | \$ 113,821 | \$ 99,265 |
| Additions | 58,894 | 48,002 |
| Amortization | (38,653) | (35,307) |
| Balance, end of period | <u>\$134,062</u> | <u>\$111,960</u> |

Estimated amortization of MSRs for fiscal years 2005 through 2009 is \$76.2 million, \$47.8 million, \$21.1 million, \$7.9 million and \$2.0 million, respectively.

The key assumptions we used to estimate the cash flows and values of the residual interests initially recorded during the three months ended October 31, 2004 and 2003 are as follows:

| | October 31, 2004 | October 31, 2003 |
|---|--------------------------------|------------------|
| Estimated annual prepayments | 0.11% to 83.22% | 30% to 90% |
| Estimated credit losses | 3.08% | 4.74% |
| Discount rate | 25% | 13.21% |
| Variable returns to third-party beneficial interest holders | LIBOR forward curve at closing | |

The key assumptions we used to estimate the cash flows and values of the residual interests and MSRs at October 31, 2004 and April 30, 2004 are as follows:

| | October 31, 2004 | April 30, 2004 |
|---|---------------------------------------|----------------|
| Estimated annual prepayments | 0.37% to 93.36% | 25% to 90% |
| Estimated credit losses – residual interests | 3.25% | 4.16% |
| Discount rate – residual interests | 20.93% | 19.09% |
| Discount rate – MSRs | 12.80% | 12.80% |
| Variable returns to third-party beneficial interest holders | LIBOR forward curve at valuation date | |

Expected static pool credit losses are as follows:

| | Mortgage Loans Securitized in Fiscal Year | | | | |
|------------------|---|-------|-------|-------|-------|
| | Prior to 2002 | 2002 | 2003 | 2004 | 2005 |
| As of: | | | | | |
| April 30, 2004 | 4.46% | 3.58% | 4.35% | 3.92% | — |
| July 31, 2004 | 4.58% | 2.96% | 2.47% | 2.59% | — |
| October 31, 2004 | 4.54% | 2.96% | 2.30% | 2.62% | 3.08% |

Static pool credit losses are calculated by summing the actual and projected future credit losses and dividing them by the original balance of each pool of assets outstanding at October 31, 2004, July 31, 2004 and April 30, 2004.

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At October 31, 2004, the sensitivities of the current fair value of the residual interests and MSR to 10% and 20% adverse changes in the above key assumptions are as follows:

(dollars in 000s)

| | Residential Mortgage Loans | | |
|--|----------------------------|--|-----------------|
| | NIM Residuals | Beneficial Interest in Trusts ⁽¹⁾ | Servicing Asset |
| Carrying amount/fair value | \$ 261,503 | \$ 108,624 | \$ 134,062 |
| Weighted average remaining life (in years) | 1.2 | 2.6 | 1.3 |
| Prepayments (including defaults): | | | |
| Adverse 10% — \$ impact on fair value | \$ (3,887) | \$ (13,805) | \$ (13,455) |
| Adverse 20% — \$ impact on fair value | (3,669) | (20,687) | (23,030) |
| Credit losses: | | | |
| Adverse 10% — \$ impact on fair value | \$ (34,773) | \$ (5,782) | Not applicable |
| Adverse 20% — \$ impact on fair value | (69,504) | (11,481) | Not applicable |
| Discount rate: | | | |
| Adverse 10% — \$ impact on fair value | \$ (5,187) | \$ (5,879) | \$ (1,738) |
| Adverse 20% — \$ impact on fair value | (10,159) | (11,294) | (3,437) |
| Variable interest rates (LIBOR forward curve): | | | |
| Adverse 10% — \$ impact on fair value | \$ (7,539) | \$ (15,455) | Not applicable |
| Adverse 20% — \$ impact on fair value | (14,086) | (30,873) | Not applicable |

(1) Adverse changes could be minimized by the Trusts' ability to deliver loans into our forward loan sale commitments.

These sensitivities are hypothetical and should be used with caution. Changes in fair value based on a 10% variation in assumptions generally cannot be extrapolated because the relationship of the change in assumption to the change in fair value may not be linear. Also in this table, the effect of a variation of a particular assumption on the fair value of the retained interest is calculated without changing any other assumptions. It is likely that changes in one factor may result in changes in another, which might magnify or counteract the sensitivities.

Mortgage loans that have been securitized at October 31, 2004 and April 30, 2004, past due sixty days or more and the related credit losses incurred are presented below:

(in 000s)

| | Total Principal Amount of Loans Outstanding | | Principal Amount of Loans 60 Days or More Past Due | | Credit Losses (net of recoveries) | |
|------------------------------------|---|----------------|--|----------------|-----------------------------------|----------------|
| | October 31, 2004 | April 30, 2004 | October 31, 2004 | April 30, 2004 | Three months ended | |
| | | | | | October 31, 2004 | April 30, 2004 |
| Securitized mortgage loans | \$12,485,799 | \$15,732,953 | \$1,193,569 | \$1,286,069 | \$80,826 | \$46,606 |
| Mortgage loans in warehouse Trusts | 3,902,317 | 3,244,141 | — | — | — | — |
| Total loans | \$16,388,116 | \$18,977,094 | \$1,193,569 | \$1,286,069 | \$80,826 | \$46,606 |

4. Goodwill and Intangible Assets

Changes in the carrying amount of goodwill for the six months ended October 31, 2004, consist of the following:

(in 000s)

| | April 30, 2004 | Additions | Other | October 31, 2004 |
|---------------------|----------------|-----------|-------|------------------|
| Tax Services | \$349,836 | \$1,604 | \$528 | \$351,968 |
| Mortgage Services | 152,467 | — | — | 152,467 |
| Business Services | 311,175 | 2,998 | — | 314,173 |
| Investment Services | 145,732 | — | — | 145,732 |
| Corporate | 208 | — | — | 208 |
| Total goodwill | \$959,418 | \$4,602 | \$528 | \$964,548 |

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We test goodwill for impairment annually at the beginning of our fourth quarter, or more frequently if events occur indicating a potential reduction in the fair value of a reporting unit's net assets below its carrying value. No such impairment or events indicating potential impairment have been identified within any of our segments during the six months ended October 31, 2004. Should Investment Services' performance continue to fall short of our internal expectations, it will be necessary for this segment's goodwill to be tested for impairment prior to our annual impairment testing. Our evaluation of impairment is dependent upon various assumptions, including assumptions regarding projected operating results and cash flows of reporting units. Actual results could differ materially from our projections and those differences could alter our conclusions regarding the fair value of a reporting unit and its goodwill.

Intangible assets consist of the following:

(in 000s)

| | October 31, 2004 | | | April 30, 2004 | | |
|--------------------------------|-----------------------|--------------------------|------------------|-----------------------|--------------------------|------------------|
| | Gross Carrying Amount | Accumulated Amortization | Net | Gross Carrying Amount | Accumulated Amortization | Net |
| Tax Services: | | | | | | |
| Customer relationships | \$ 18,964 | \$ (4,759) | \$14,205 | 18,167 | \$ (3,311) | \$ 14,856 |
| Noncompete agreements | 17,164 | (8,539) | 8,625 | 17,069 | (5,690) | 11,379 |
| Business Services: | | | | | | |
| Customer relationships | 121,094 | (62,530) | 58,564 | 121,229 | (56,313) | 64,916 |
| Noncompete agreements | 27,375 | (9,965) | 17,410 | 27,424 | (8,670) | 18,754 |
| Trade name – amortizing | 1,450 | (960) | 490 | 1,450 | (926) | 524 |
| Trade name – non-amortizing | 55,637 | (4,868) | 50,769 | 55,637 | (4,868) | 50,769 |
| Investment Services: | | | | | | |
| Customer relationships | 293,000 | (144,058) | 148,942 | 293,000 | (129,408) | 163,592 |
| Corporate: | | | | | | |
| Customer relationships | 844 | (217) | 627 | 844 | (66) | 778 |
| Noncompete agreements | 295 | (76) | 219 | 295 | (34) | 261 |
| Total intangible assets | \$535,823 | \$(235,972) | \$299,851 | \$535,115 | \$(209,286) | \$325,829 |

Amortization of intangible assets for the three and six months ended October 31, 2004 was \$13.5 million and \$26.8 million, respectively. Amortization of intangible assets for the three and six months ended October 31, 2003 was \$12.9 million and \$24.0 million, respectively. Estimated amortization of intangible assets for fiscal years 2005 through 2009 is \$53.6 million, \$51.9 million, \$43.0 million, \$41.2 million and \$39.8 million, respectively.

5. Derivative Instruments

In the normal course of business, we enter into commitments with our customers to fund mortgage loans for specified periods of time at "locked-in" interest rates. These derivative instruments represent commitments (rate-lock equivalent) to fund loans. At October 31, 2004 and April 30, 2004, we recorded an asset of \$0.3 million and a liability of \$1.4 million, respectively, related to prime commitments. Changes in fair value of \$1.7 million and \$0.6 million were recognized in gains on sales of mortgage assets for the six months ended October 31, 2004 and 2003, respectively. We adopted SEC Staff Accounting Bulletin No. 105, "Application of Accounting Principles to Loan Commitments," as of March 31, 2004. Upon adoption, we no longer record an asset and the related changes in fair value for non-prime commitments to fund loans.

We sell short FNMA, FHLMC and GNMA mortgage-backed securities to reduce our risk related to our commitments to fund fixed-rate prime loans. The position on certain or all of the fixed-rate mortgage loans is closed approximately 10-15 days prior to standard Public Securities Association (PSA) settlement dates. At April 30, 2004 we recorded assets totaling \$2.1 million related to these instruments. Changes in the market value of these instruments are included in gains on sales of mortgage assets and totaled a loss of \$0.7 million and \$1.5 million for the three and six months ended October 31, 2004, respectively, and a gain of \$1.5 million and \$2.8 million for the three and six months ended October 31, 2003, respectively.

We enter into forward loan commitments to sell our non-prime mortgage loans to manage interest rate risk. Forward loan sale commitments for non-prime loans are not considered derivative

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instruments and are therefore not recorded in our financial statements. The notional value and the contract value of the forward commitments at October 31, 2004 were \$3.1 billion and \$3.2 billion, respectively. Most of our forward commitments give us the option to under- or over-deliver by five to ten percent.

We use interest rate swaps to reduce interest rate risk associated with non-prime loans in our pipeline prior to disposition of the loans. Interest rate swaps represent an agreement to exchange interest rate payments, effectively converting our fixed financing costs into a floating rate. These contracts increase in value as rates rise and decrease in value as rates fall. The swaps outstanding at October 31, 2004 included a net liability of \$3.6 million, while no such swaps were outstanding at April 30, 2004. Changes in the market value of these instruments are included in gains on sales of mortgage assets and totaled a loss of \$2.1 million for the three and six months ended October 31, 2004. There were no such swaps outstanding at October 31, 2003, and therefore no income statement impact for the three and six months ended October 31, 2003.

6. Long-Term Debt

On October 26, 2004, we issued \$400.0 million of 5.125% Senior Notes under a shelf registration statement. The Senior Notes are due on October 30, 2014, and are not redeemable by the bondholders prior to maturity. The proceeds from the notes will be used to repay our \$250.0 million in 63/4% Senior Notes, which were due on November 1, 2004. The remaining proceeds will be used for working capital, capital expenditures, repayment of other debt and other general corporate purposes. The proceeds are included in cash and cash equivalents on the condensed consolidated balance sheet at October 31, 2004.

7. Comprehensive Income

The components of comprehensive income are:

(in 000s)

| | Three months ended October 31, | | Six months ended October 31, | |
|---|-----------------------------------|-----------|---------------------------------|-----------|
| | 2004 | 2003 | 2004 | 2003 |
| Net income (loss) | \$ (52,199) | \$ 10,376 | \$ (96,282) | \$ 15,536 |
| Change in unrealized gain on marketable securities, net | 9,752 | (6,172) | 33,595 | 14,036 |
| Change in foreign currency translation adjustments | 8,371 | 6,087 | 8,041 | 11,730 |
| Comprehensive income (loss) | \$ (34,076) | \$ 10,291 | \$ (54,646) | \$ 41,302 |

8. Stock-Based Compensation

Effective May 1, 2003, we adopted the fair value recognition provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" (SFAS 123), under the prospective transition method as described in Statement of Financial Accounting Standards No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure." Had compensation cost for all stock-based compensation plan grants been determined in accordance with the fair value accounting method prescribed under SFAS 123, our net income (loss) and earnings (loss) per share would have been as follows:

(in 000s, except per share amounts)

| | Three months ended October 31, | | Six months ended October 31, | |
|--|-----------------------------------|-----------|---------------------------------|-----------|
| | 2004 | 2003 | 2004 | 2003 |
| Net income (loss) as reported | \$ (52,199) | \$ 10,376 | \$ (96,282) | \$ 15,536 |
| Add: Stock-based compensation expense included in reported net income (loss), net of related tax effects | 5,242 | 2,005 | 8,342 | 2,797 |
| Deduct: Total stock-based compensation expense determined under fair value method for all awards, net of related tax effects | (7,923) | (5,565) | (13,705) | (10,631) |
| Pro forma net income (loss) | \$ (54,880) | \$ 6,816 | \$ (101,645) | \$ 7,702 |
| Basic and diluted earnings (loss) per share: | | | | |
| As reported | \$ (.32) | \$.06 | \$ (.58) | \$.09 |
| Pro forma | (.33) | .04 | (.61) | .04 |

9. Supplemental Cash Flow Information

During the six months ended October 31, 2004, we paid \$316.8 million and \$37.3 million for income taxes and interest, respectively. During the six months ended October 31, 2003, we paid \$170.8 million and \$42.7 million for income taxes and interest, respectively.

The following transactions were treated as non-cash investing activities in the condensed consolidated statement of cash flows:

| | (in 000s) | |
|-------------------------------------|-----------|-----------|
| Six months ended October 31, | 2004 | 2003 |
| Residual interest mark-to-market | \$ 88,867 | \$ 22,910 |
| Additions to residual interests | 15,270 | 1,814 |
| Accrued payment on acquisition debt | — | 25,000 |

10. Commitments and Contingencies

We maintain unsecured committed lines of credit (CLOCs) to support our commercial paper program and for general corporate purposes. During the second quarter, we replaced our \$2.0 billion CLOC with two CLOCs. The two CLOCs are from a consortium of thirty-one banks. The first \$1.0 billion CLOC is subject to annual renewal in August 2005, has a one-year term-out provision with a maturity date in August 2006 and has an annual facility fee of ten basis points per annum. The second \$1.0 billion CLOC has a maturity date of August 2009 and has an annual facility fee of twelve basis points per annum. These lines are subject to various affirmative and negative covenants, including a minimum net worth covenant.

We offer guarantees under our Peace of Mind (POM) program to tax clients whereby we will assume the cost of additional taxes attributable to tax return preparation error for which we are responsible. In August 2003, we adopted Emerging Issues Task Force Issue No. 00-21, "Revenue Arrangements with Multiple Deliverables" (EITF 00-21). EITF 00-21 impacts revenue and expense recognition related to tax preparation in our premium tax offices where POM guarantees are included in the price of a completed tax return. Prior to the adoption of EITF 00-21, revenues and expenses related to POM guarantees at premium offices were recorded in the same period as tax preparation revenues. Beginning May 1, 2003, revenues and direct expenses related to POM guarantees are now initially deferred and recognized over the guarantee period based upon historic and actual payment of claims. As a result of the adoption of EITF 00-21, we recorded a cumulative effect of a change in accounting principle of \$6.4 million, net of a tax benefit of \$4.0 million, as of May 1, 2003. Changes in the deferred revenue liability are as follows:

| | (in 000s) | |
|--|------------|-----------|
| Six months ended October 31, | 2004 | 2003 |
| Balance, beginning of period | \$ 123,048 | \$ 49,280 |
| Amounts deferred for new guarantees issued | 798 | 975 |
| Revenue recognized on previous deferrals | (41,627) | (37,558) |
| Adjustment resulting from change in accounting principle | — | 61,487 |
| Balance, end of period | \$ 82,219 | \$ 74,184 |

We have commitments to fund mortgage loans to customers as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses. The commitments to fund loans amounted to \$2.7 billion and \$2.6 billion at October 31, 2004 and April 30, 2004, respectively. External market forces impact the probability of commitments being exercised, and therefore, total commitments outstanding do not necessarily represent future cash requirements.

We have entered into whole loan sale agreements with investors in the normal course of business, which include standard representations and warranties customary to the mortgage banking industry. Violations of these representations and warranties may require us to repurchase loans previously sold. A liability has been established related to the potential loss on repurchase of loans previously sold of \$36.0 million and \$25.2 million at October 31, 2004 and April 30, 2004, respectively, based on historical experience. Repurchased loans are normally sold in subsequent sale transactions.

Option One Mortgage Corporation provides a guarantee up to a maximum amount equal to approximately 10% of the aggregate principal balance of mortgage loans held by the Trusts before ultimate disposition of the loans. This guarantee would be called upon in the event adequate proceeds were not available from the sale of the mortgage loans to satisfy the payment obligations of the Trusts. No losses have been sustained on this commitment since its inception. The total principal amount of Trust obligations outstanding as of October 31, 2004 and April 30, 2004 was \$3.8 billion and \$3.2 billion, respectively. The fair value of mortgage loans held by the Trusts as of October 31, 2004 and April 30, 2004 was \$3.9 billion and \$3.3 billion, respectively.

We have various contingent purchase price obligations in connection with prior acquisitions. In many cases, contingent payments to be made in connection with these acquisitions are not subject to a stated limit. We estimate the potential payments (undiscounted) total approximately \$4.8 million and \$7.8 million as of October 31, 2004 and April 30, 2004, respectively. Our estimate is based on current financial conditions. Should actual results differ materially from our assumptions, the potential payments will differ from the above estimate. Such payments, if and when paid, would be recorded as additional goodwill.

We have contractual commitments to fund certain franchises requesting draws on Franchise Equity Lines of Credit (FELCs). Our commitment to fund FELCs as of October 31, 2004 and April 30, 2004 totaled \$66.1 million and \$27.0 million, respectively. We have a receivable of \$42.6 million and \$35.9 million, which represents the amounts drawn on the FELCs, as of October 31, 2004 and April 30, 2004, respectively.

We routinely enter into contracts that include embedded indemnifications that have characteristics similar to guarantees, including obligations to protect counter parties from losses arising from the following: (a) tax, legal and other risks related to the purchase or disposition of businesses; (b) penalties and interest assessed by Federal and state taxing authorities in connection with tax returns prepared for clients; (c) indemnification of our directors and officers; and (d) third-party claims relating to various arrangements in the normal course of business. Typically, there is no stated maximum payment related to these indemnifications, and the term of indemnities may vary and in many cases is limited only by the applicable statute of limitations. The likelihood of any claims being asserted against us and the ultimate liability related to any such claims, if any, is difficult to predict. While we cannot provide assurance that such claims will not be successfully asserted, we believe the fair value of these guarantees and indemnifications is not material as of October 31, 2004.

11. Litigation Commitments and Contingencies

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

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The case is currently scheduled to go to trial in March 2005. We intend to continue defending the case and the remaining RAL class action litigation vigorously, but there are no assurances as to their outcome.

On September 8, 2004, our Board of Directors approved a proposed settlement of the case *Joyce Green, et al. v. H&R Block, Inc., Block Financial Corporation, et al.*, Case No. 97195023, in the Circuit Court for Baltimore City, Maryland. The proposed settlement provided for each class member to receive a small cash payment and a one-time rebate coupon for tax return preparation services and for the defendants to pay settlement administration costs and court-approved legal fees of class counsel. During the process of finalizing the settlement agreement, the parties were unable to reach agreement regarding certain settlement terms. We intend to continue defending the case vigorously, but there is no assurance as to its outcome.

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

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

12. Segment Information

Information concerning our operations by reportable operating segment is as follows:

(in 000s)

| | Three months ended October 31, | | Six months ended October 31, | |
|----------------------------|--------------------------------|-------------------|------------------------------|--------------------|
| | 2004 | 2003 | 2004 | 2003 |
| Revenues: | | | | |
| Tax Services | \$ 74,106 | \$ 66,284 | \$ 124,553 | \$ 112,265 |
| Mortgage Services | 281,634 | 340,173 | 549,767 | 632,762 |
| Business Services | 129,047 | 109,024 | 238,149 | 207,523 |
| Investment Services | 53,761 | 52,703 | 107,342 | 109,690 |
| Corporate | 707 | 688 | 2,155 | 2,016 |
| | <u>\$ 539,255</u> | <u>\$ 568,872</u> | <u>\$1,021,966</u> | <u>\$1,064,256</u> |
| Pretax income (loss): | | | | |
| Tax Services | \$(133,972) | \$(130,383) | \$ (246,961) | \$ (229,963) |
| Mortgage Services | 106,200 | 184,026 | 199,740 | 347,855 |
| Business Services | (4,913) | (2,732) | (14,984) | (9,411) |
| Investment Services | (24,566) | (15,336) | (42,837) | (29,093) |
| Corporate | (28,673) | (18,441) | (53,446) | (43,425) |
| Income (loss) before taxes | <u>\$ (85,924)</u> | <u>\$ 17,134</u> | <u>\$ (158,488)</u> | <u>\$ 35,963</u> |

Our international operations contributed \$22.3 million and \$28.1 million in revenues for the three and six months ended October 31, 2004, respectively, and \$1.2 million of pretax income and \$6.6 million

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in pretax losses, respectively. Our international operations contributed \$19.1 million and \$24.6 million in revenues for the three and six months ended October 31, 2003, respectively, and \$0.6 million of pretax income and \$5.9 million in pretax losses, respectively. The previously reported International Tax Operations segment has been aggregated with U.S. Tax Operations in the Tax Services segment, and prior year results have been restated to reflect this change.

13. New Accounting Pronouncements

Exposure Draft – Amendment of SFAS 140

The Financial Accounting Standards Board (FASB) intends to reissue the exposure draft, “Qualifying Special Purpose Entities and Isolation of Transferred Assets, an Amendment of FASB Statement No. 140,” during the second quarter of calendar year 2005. The purpose of the proposal is to provide more specific guidance on the accounting for transfers of financial assets to a qualifying special purpose entity (QSPE).

Provisions in the first exposure draft, as well as tentative decisions reached by the FASB during its deliberations, may require us to consolidate our current QSPEs (the Trusts) established in our Mortgage Services segment. As of October 31, 2004, the Trusts had assets and liabilities of \$3.8 billion. The provisions of the exposure draft are subject to FASB due process and are subject to change. We will continue to monitor the status of the exposure draft, and consider changes, if any, to current structures as a result of the proposed rules.

14. Condensed Consolidating Financial Statements

Block Financial Corporation (BFC) is an indirect, wholly owned consolidated subsidiary of the Company. BFC is the Issuer and the Company is the Guarantor of the Senior Notes issued on October 21, 1997, April 13, 2000 and October 26, 2004. These condensed consolidating financial statements have been prepared using the equity method of accounting. Earnings of subsidiaries are, therefore, reflected in the Company’s investment in subsidiaries account. The elimination entries eliminate investments in subsidiaries, related stockholder’s equity and other intercompany balances and transactions. The income statement for the three and six months ended October 31, 2003 and statement of cash flows for the six months ended October 31, 2003 and balance sheet as of April 30, 2004 have been adjusted to reflect intercompany royalties between BFC and other subsidiaries. These adjustments have no effect on H&R Block, Inc. (Guarantor) or Consolidated H&R Block.

Condensed Consolidating Income Statements

(in 000s)

| | Three months ended October 31, 2004 | | | | |
|----------------------------|-------------------------------------|------------------|-----------------------|-----------------|---------------------------|
| | H&R Block, Inc. (Guarantor) | BFC (Issuer) | Other Subsidiaries | Elims | Consolidated H&R Block |
| Total revenues | \$ — | \$338,168 | \$ 204,439 | \$ (3,352) | \$539,255 |
| Cost of services | — | 93,834 | 224,936 | 63 | 318,833 |
| Other | — | 181,107 | 130,164 | (3,415) | 307,856 |
| Total expenses | — | 274,941 | 355,100 | (3,352) | 626,689 |
| Operating income (loss) | — | 63,227 | (150,661) | — | (87,434) |
| Other income, net | (85,924) | — | 1,510 | 85,924 | 1,510 |
| Income (loss) before taxes | (85,924) | 63,227 | (149,151) | 85,924 | (85,924) |
| Income taxes (benefit) | (33,725) | 27,201 | (60,926) | 33,725 | (33,725) |
| Net income (loss) | <u>\$(52,199)</u> | <u>\$ 36,026</u> | <u>\$ (88,225)</u> | <u>\$52,199</u> | <u>\$ (52,199)</u> |

Three months ended October 31, 2003

| | H&R Block, Inc. (Guarantor) | BFC (Issuer) | Other Subsidiaries | Elims | Consolidated H&R Block |
|----------------------------|--|-------------------------|-------------------------------|--------------|---------------------------------------|
| Total revenues | \$ — | \$396,296 | \$ 175,308 | \$ (2,732) | \$568,872 |
| Cost of services | — | 85,127 | 198,025 | (226) | 282,926 |
| Other | — | 175,259 | 97,387 | (2,670) | 269,976 |
| Total expenses | — | 260,386 | 295,412 | (2,896) | 552,902 |
| Operating income (loss) | — | 135,910 | (120,104) | 164 | 15,970 |
| Other income, net | 17,134 | — | 1,164 | (17,134) | 1,164 |
| Income (loss) before taxes | 17,134 | 135,910 | (118,940) | (16,970) | 17,134 |
| Income taxes (benefit) | 6,758 | 55,323 | (48,629) | (6,694) | 6,758 |
| Net income (loss) | \$10,376 | \$ 80,587 | \$ (70,311) | \$ (10,276) | \$ 10,376 |

Six months ended October 31, 2004

| | H&R Block, Inc. (Guarantor) | BFC (Issuer) | Other Subsidiaries | Elims | Consolidated H&R Block |
|----------------------------|--|-------------------------|-------------------------------|--------------|---------------------------------------|
| Total revenues | \$ — | \$662,930 | \$ 365,655 | \$ (6,619) | \$1,021,966 |
| Cost of services | — | 189,277 | 418,649 | 109 | 608,035 |
| Other | — | 354,472 | 228,193 | (6,728) | 575,937 |
| Total expenses | — | 543,749 | 646,842 | (6,619) | 1,183,972 |
| Operating income (loss) | — | 119,181 | (281,187) | — | (162,006) |
| Other income, net | (158,488) | — | 3,518 | 158,488 | 3,518 |
| Income (loss) before taxes | (158,488) | 119,181 | (277,669) | 158,488 | (158,488) |
| Income taxes (benefit) | (62,206) | 51,560 | (113,766) | 62,206 | (62,206) |
| Net income (loss) | \$ (96,282) | \$ 67,621 | \$ (163,903) | \$ 96,282 | \$ (96,282) |

Six months ended October 31, 2003

| | H&R Block, Inc. (Guarantor) | BFC (Issuer) | Other Subsidiaries | Elims | Consolidated H&R Block |
|---|--|-------------------------|-------------------------------|--------------|---------------------------------------|
| Total revenues | \$ — | \$751,321 | \$ 318,151 | \$ (5,216) | \$1,064,256 |
| Cost of services | — | 168,521 | 366,489 | (433) | 534,577 |
| Other | — | 319,160 | 182,527 | (5,112) | 496,575 |
| Total expenses | — | 487,681 | 549,016 | (5,545) | 1,031,152 |
| Operating income (loss) | — | 263,640 | (230,865) | 329 | 33,104 |
| Other income, net | 35,963 | — | 2,859 | (35,963) | 2,859 |
| Income (loss) before taxes | 35,963 | 263,640 | (228,006) | (35,634) | 35,963 |
| Income taxes (benefit) | 14,068 | 107,467 | (93,528) | (13,939) | 14,068 |
| Net income (loss) before change in accounting | 21,895 | 156,173 | (134,478) | (21,695) | 21,895 |
| Cumulative effect of change in accounting | (6,359) | — | (6,359) | 6,359 | (6,359) |
| Net income (loss) | \$15,536 | \$156,173 | \$ (140,837) | \$ (15,336) | \$ 15,536 |

| | October 31, 2004 | | | | |
|--|--------------------------------|---------------------|-----------------------|----------------------|---------------------------|
| | H&R Block, Inc. (Guarantor) | BFC (Issuer) | Other Subsidiaries | Elims | Consolidated H&R Block |
| Cash & cash equivalents | \$ — | \$ 175,689 | \$ 400,107 | \$ — | \$ 575,796 |
| Cash & cash equivalents- restricted | — | 477,611 | 19,187 | — | 496,798 |
| Receivables from customers, brokers and dealers, net | — | 610,039 | — | — | 610,039 |
| Receivables, net | 1,255 | 186,354 | 180,463 | — | 368,072 |
| Intangible assets and goodwill, net | — | 447,141 | 817,258 | — | 1,264,399 |
| Investments in subsidiaries | 4,242,076 | 210 | 416 | (4,242,076) | 626 |
| Other assets | — | 1,178,149 | 402,979 | — | 1,581,128 |
| Total assets | <u>\$4,243,331</u> | <u>\$ 3,075,193</u> | <u>\$ 1,820,410</u> | <u>\$(4,242,076)</u> | <u>\$4,896,858</u> |
| Commercial paper | \$ — | \$ 316,056 | \$ — | \$ — | \$ 316,056 |
| Accts. payable to customers, brokers and dealers | — | 1,000,083 | — | — | 1,000,083 |
| Long-term debt | — | 896,173 | 35,608 | — | 931,781 |
| Other liabilities | 2 | 579,333 | 754,923 | 13 | 1,334,271 |
| Net intercompany advances | 2,928,662 | (1,084,503) | (1,844,146) | (13) | — |
| Stockholders' equity | 1,314,667 | 1,368,051 | 2,874,025 | (4,242,076) | 1,314,667 |
| Total liabilities and stockholders' equity | <u>\$4,243,331</u> | <u>\$ 3,075,193</u> | <u>\$ 1,820,410</u> | <u>\$(4,242,076)</u> | <u>\$4,896,858</u> |
| | April 30, 2004 | | | | |
| | H&R Block, Inc. (Guarantor) | BFC (Issuer) | Other Subsidiaries | Elims | Consolidated H&R Block |
| Cash & cash equivalents | \$ — | \$ 132,076 | \$ 939,600 | \$ — | \$1,071,676 |
| Cash & cash equivalents- restricted | — | 532,201 | 13,227 | — | 545,428 |
| Receivables from customers, brokers and dealers, net | — | 625,076 | — | — | 625,076 |
| Receivables, net | 180 | 168,879 | 178,851 | — | 347,910 |
| Intangible assets and goodwill, net | — | 461,791 | 823,456 | — | 1,285,247 |
| Investments in subsidiaries | 4,291,693 | 205 | 297 | (4,291,693) | 502 |
| Other assets | (145) | 1,115,435 | 389,270 | (373) | 1,504,187 |
| Total assets | <u>\$4,291,728</u> | <u>\$3,035,663</u> | <u>\$ 2,344,701</u> | <u>\$(4,292,066)</u> | <u>\$5,380,026</u> |
| Accts. payable to customers, brokers and dealers | \$ — | \$1,065,793 | \$ — | \$ — | \$1,065,793 |
| Long-term debt | — | 498,225 | 47,586 | — | 545,811 |
| Other liabilities | 15,879 | 509,151 | 1,345,822 | 561 | 1,871,413 |
| Net intercompany advances | 2,378,840 | (304,432) | (2,073,847) | (561) | — |
| Stockholders' equity | 1,897,009 | 1,266,926 | 3,025,140 | (4,292,066) | 1,897,009 |
| Total liabilities and stockholders' equity | <u>\$4,291,728</u> | <u>\$3,035,663</u> | <u>\$ 2,344,701</u> | <u>\$(4,292,066)</u> | <u>\$5,380,026</u> |

Six months ended October 31, 2004

| | H&R Block, Inc. (Guarantor) | BFC (Issuer) | Other Subsidiaries | Elims | Consolidated H&R Block |
|---|--------------------------------|-----------------|-----------------------|-----------|---------------------------|
| Net cash used in operating activities: | \$ 810 | \$ 51,811 | \$(727,708) | \$ — | \$ (675,087) |
| Cash flows from investing: | | | | | |
| Cash received on residuals | — | 73,477 | — | — | 73,477 |
| Purchase property & equipment | — | (12,785) | (42,464) | — | (55,249) |
| Payments for business acquisitions | — | — | (5,472) | — | (5,472) |
| Net intercompany advances | 544,812 | — | — | (544,812) | — |
| Other, net | — | (96) | 12,234 | — | 12,138 |
| Net cash provided by (used in) investing activities | 544,812 | 60,596 | (35,702) | (544,812) | 24,894 |
| Cash flows from financing: | | | | | |
| Repayments of commercial paper | — | (1,376,877) | — | — | (1,376,877) |
| Proceeds from commercial paper | — | 1,692,933 | — | — | 1,692,933 |
| Proceeds from long-term debt | — | 395,221 | — | — | 395,221 |
| Dividends paid | (69,997) | — | — | — | (69,997) |
| Acquisition of treasury shares | (529,558) | — | — | — | (529,558) |
| Proceeds from common stock | 53,933 | — | — | — | 53,933 |
| Net intercompany advances | — | (780,071) | 235,259 | 544,812 | — |
| Other, net | — | — | (11,342) | — | (11,342) |
| Net cash provided by (used in) financing activities | (545,622) | (68,794) | 223,917 | 544,812 | 154,313 |
| Net increase (decrease) in cash | — | 43,613 | (539,493) | — | (495,880) |
| Cash - beginning of period | — | 132,076 | 939,600 | — | 1,071,676 |
| Cash - end of period | \$ — | \$ 175,689 | \$ 400,107 | \$ — | \$ 575,796 |

Six months ended October 31, 2003

| | H&R Block, Inc. (Guarantor) | BFC (Issuer) | Other Subsidiaries | Elims | Consolidated H&R Block |
|--|--------------------------------|-----------------|-----------------------|-----------|---------------------------|
| Net cash provided by (used in) operating activities: | \$ 6,269 | \$ (96,440) | \$(373,179) | \$ — | \$(463,350) |
| Cash flows from investing: | | | | | |
| Cash received on residuals | — | 68,850 | — | — | 68,850 |
| Purchase property & equipment | — | (10,212) | (33,379) | — | (43,591) |
| Payments for business acquisitions | — | — | (123,337) | — | (123,337) |
| Net intercompany advances | 180,814 | — | — | (180,814) | — |
| Other, net | — | 16,700 | (10,009) | — | 6,691 |
| Net cash provided by (used in) investing activities | 180,814 | 75,338 | (166,725) | (180,814) | (91,387) |
| Cash flows from financing: | | | | | |
| Repayments of commercial paper | — | (499,771) | — | — | (499,771) |
| Proceeds from commercial paper | — | 624,401 | — | — | 624,401 |
| Dividends paid | (68,087) | — | — | — | (68,087) |
| Acquisition of treasury shares | (178,847) | — | — | — | (178,847) |
| Proceeds from issuance of common stock | 59,851 | — | — | — | 59,851 |
| Net intercompany advances | — | (175,150) | (5,664) | 180,814 | — |
| Other, net | — | 50,100 | (46,933) | — | 3,167 |
| Net cash used in financing activities | (187,083) | (420) | (52,597) | 180,814 | (59,286) |
| Net decrease in cash | — | (21,522) | (592,501) | — | (614,023) |
| Cash - beginning of period | — | 180,181 | 695,172 | — | 875,353 |
| Cash - end of period | \$ — | \$ 158,659 | \$ 102,671 | \$ — | \$ 261,330 |

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

RESULTS OF OPERATIONS

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

Our Mission

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

Key to achieving our mission is the enhancement of client experiences through consistent delivery of valuable services and advice. Operating through multiple lines of business allows us to better meet the changing financial needs of our clients.

The analysis that follows should be read in conjunction with the tables below and the condensed consolidated income statements found on page 2.

Consolidated H&R Block, Inc. – Operating Results

(in 000s, except per share amounts)

| | Three months ended October 31, | | Six months ended October 31, | |
|---|--------------------------------|-------------------|------------------------------|--------------------|
| | 2004 | 2003 | 2004 | 2003 |
| Revenues: | | | | |
| Tax Services | \$ 74,106 | \$ 66,284 | \$ 124,553 | \$ 112,265 |
| Mortgage Services | 281,634 | 340,173 | 549,767 | 632,762 |
| Business Services | 129,047 | 109,024 | 238,149 | 207,523 |
| Investment Services | 53,761 | 52,703 | 107,342 | 109,690 |
| Corporate | 707 | 688 | 2,155 | 2,016 |
| | <u>\$ 539,255</u> | <u>\$ 568,872</u> | <u>\$1,021,966</u> | <u>\$1,064,256</u> |
| Pretax income (loss): | | | | |
| Tax Services | \$(133,972) | \$(130,383) | \$ (246,961) | \$ (229,963) |
| Mortgage Services | 106,200 | 184,026 | 199,740 | 347,855 |
| Business Services | (4,913) | (2,732) | (14,984) | (9,411) |
| Investment Services | (24,566) | (15,336) | (42,837) | (29,093) |
| Corporate | (28,673) | (18,441) | (53,446) | (43,425) |
| Income (loss) before taxes | (85,924) | 17,134 | (158,488) | 35,963 |
| Income taxes (benefit) | (33,725) | 6,758 | (62,206) | 14,068 |
| Net income (loss) before change in accounting principle | (52,199) | 10,376 | (96,282) | 21,895 |
| Cumulative effect of change in accounting principle | — | — | — | (6,359) |
| Net income (loss) | <u>\$ (52,199)</u> | <u>\$ 10,376</u> | <u>\$ (96,282)</u> | <u>\$ 15,536</u> |
| Basic earnings (loss) per share | <u>\$ (.32)</u> | <u>\$.06</u> | <u>\$ (.58)</u> | <u>\$.09</u> |
| Diluted earnings (loss) per share | <u>\$ (.32)</u> | <u>\$.06</u> | <u>\$ (.58)</u> | <u>\$.09</u> |

OVERVIEW

A summary of our results for the six months ended October 31, 2004 compared to the prior year is as follows:

- The net loss for the first half of fiscal year 2005 was \$96.3 million, compared to net income, before the change in accounting principle, of \$21.9 million in 2004.

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- Tax Services' pretax loss increased \$17.0 million, to \$247.0 million, primarily due to off-season expenses related to the former major franchise territories acquired in the second quarter of last year, real estate expansion and marketing costs.
- Mortgage Services' revenues and pretax earnings decreased \$83.0 million and \$148.1 million, respectively. The decline is due to increased price competition, poorer execution in the secondary market and higher loan origination costs.
- Business Services' revenues increased \$30.6 million, or 14.8%, primarily due to our accounting and consulting business and the risk management services they are providing. The pretax loss increased \$5.6 million, or 59.2%, over the prior year primarily due to increased compensation costs and investments we are making in our developing lines of business.
- Investment Services' revenues declined \$2.3 million and the pretax loss increased \$13.7 million. Declining results are primarily due to a \$6.0 million write-down of a branch office facility and additional compensation and benefits from higher commission rates and financial incentives for new advisors.

TAX SERVICES

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

Tax Services – Operating Results

(in 000s)

| | Three months ended October 31, | | Six months ended October 31, | |
|-------------------------------------|--------------------------------|---------------------|------------------------------|---------------------|
| | 2004 | 2003 | 2004 | 2003 |
| Service revenues: | | | | |
| Tax preparation and related fees | \$ 33,986 | \$ 28,770 | \$ 53,148 | \$ 45,018 |
| Online tax services | 607 | 424 | 1,308 | 971 |
| Other services | 28,714 | 27,269 | 52,971 | 48,730 |
| | 63,307 | 56,463 | 107,427 | 94,719 |
| Software sales | 1,280 | 701 | 2,625 | 818 |
| Royalties | 3,739 | 3,416 | 5,351 | 4,983 |
| RAL waiver fees | — | 1,446 | — | 5,560 |
| Other | 5,780 | 4,258 | 9,150 | 6,185 |
| Total revenues | 74,106 | 66,284 | 124,553 | 112,265 |
| Cost of services: | | | | |
| Compensation and benefits | 43,237 | 38,425 | 73,921 | 66,239 |
| Occupancy | 52,838 | 48,299 | 103,509 | 92,302 |
| Depreciation | 9,637 | 9,686 | 18,615 | 18,097 |
| Supplies | 5,754 | 4,873 | 8,015 | 6,487 |
| Other | 31,480 | 32,155 | 59,376 | 58,936 |
| | 142,946 | 133,438 | 263,436 | 242,061 |
| Cost of software sales | 4,399 | 4,625 | 7,669 | 6,708 |
| Selling, general and administrative | 60,733 | 58,604 | 100,409 | 93,459 |
| Total expenses | 208,078 | 196,667 | 371,514 | 342,228 |
| Pretax loss | <u>\$ (133,972)</u> | <u>\$ (130,383)</u> | <u>\$ (246,961)</u> | <u>\$ (229,963)</u> |

Three months ended October 31, 2004 compared to October 31, 2003

Tax Services' revenues increased \$7.8 million, or 11.8%, for the three months ended October 31, 2004 compared to the prior year.

Tax preparation and related fees increased \$5.2 million, or 18.1%, for the current quarter. This increase is due in part to Australian operations, which is currently in the middle of its tax season. Australian tax returns prepared increased 7.0% and the average charge increased 2.4%, resulting in \$2.7 million of additional revenues. Revenues also increased \$1.2 million due to clients accepting their returns in the current quarter, which were started and/or completed in a previous fiscal year.

Other service revenues increased \$1.4 million as a result of additional revenues associated with POM guarantees.

Cost of services for the three months ended October 31, 2004 increased \$9.5 million, or 7.1%, from the prior year. Our real estate expansion efforts have contributed to increases in both our occupancy expenses and costs related to additional tax courses offered, which we anticipate will provide us with

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the staffing necessary for the new offices. Compensation and benefits increased \$4.8 million primarily due to an increase in the instructors and support personnel needed to offer these additional tax courses, and \$1.1 million in increased stock-based compensation for seasonal employees. Additionally, off-season expenses related to the former major franchise territories acquired in the second quarter of fiscal year 2004, increased compensation and benefits \$1.0 million. These increases were partially offset by a decrease in payroll tax expenses resulting from rate adjustments implemented by certain states. Occupancy expenses increased \$4.5 million as a result of a 9.5% increase in company-owned offices under lease and an 8.2% increase in the average rent. Former major franchise territories contributed \$1.9 million of this increase.

Selling, general and administrative expenses increased \$2.1 million over the prior year due to increased spending of \$6.8 million, primarily related to additional technology projects and marketing efforts for our expanded tax courses. We also saw increases in consulting, travel and intangible amortization expenses. These increases were partially offset by decreases in legal expenses and interest accretion related to legal settlements.

The pretax loss of \$134.0 million for the three months ended October 31, 2004 represents a 2.8% increase over the prior year loss of \$130.4 million.

Due to the seasonal nature of this segment's business, operating results for the three months ended October 31, 2004 are not comparable to the three months ended July 31, 2004 and are not indicative of the expected results for the entire fiscal year.

Six months ended October 31, 2004 compared to October 31, 2003

Tax Services' revenues increased \$12.3 million, or 10.9%, for the six months ended October 31, 2004 compared to the prior year.

Tax preparation and related fees increased \$8.1 million, or 18.1%, for the six months ended October 31, 2004. This increase is primarily due to a \$3.1 million increase related to clients accepting their returns in the current period which were started and/or completed in a previous fiscal year. Australian operations contributed \$3.0 million in additional revenues as a result of increases in tax returns prepared of 7.1% and the average charge of 2.5%. Our former major franchise territories, which are now being operated as company-owned, contributed \$2.0 million in additional tax preparation and related fees.

Other service revenues increased \$4.2 million primarily as a result of additional revenues associated with POM guarantees.

Revenues earned during the current year in connection with RALs declined \$5.4 million as a result of the RAL waiver agreement in the prior year.

Cost of services for the six months ended October 31, 2004 were up \$21.4 million, or 8.8%, from the prior year. Compensation and benefits increased \$7.7 million primarily due to \$3.1 million more in off-season expenses incurred related to former major franchise territories acquired in the second quarter of fiscal year 2004. Increased numbers of instructors and support personnel needed to operate the higher number of tax courses offered this year also contributed to the increase. These increases were partially offset by a decrease in payroll tax expenses resulting from rate adjustments implemented by certain states. Occupancy expenses increased \$11.2 million as a result of a 9.0% increase in company-owned offices under lease and an 8.3% increase in the average rent. Former major franchise territories contributed \$4.8 million of this increase.

Selling, general and administrative expenses increased \$7.0 million over the prior year due to increased spending of \$10.3 million, primarily as a result of additional technology and marketing efforts undertaken in the current year. We also saw increases in consulting, travel and intangible amortization expenses. These increases were partially offset by decreases in legal expenses and in interest accretion related to legal settlements.

The pretax loss of \$247.0 million for the six months ended October 31, 2004 represents a 7.4% increase over the prior year loss of \$230.0 million.

Fiscal 2005 outlook

Our fiscal year 2005 outlook for the Tax Services segment is unchanged from the discussion in our April 30, 2004 Form 10-K and our July 31, 2004 Form 10-Q. We are on target to open between 650 and

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700 stand-alone offices across our company-owned and franchise network, and approximately 400 additional Wal-Mart locations for the upcoming tax season.

RAL Litigation

We have been named as a defendant in a number of lawsuits alleging that we engaged in wrongdoing with respect to the RAL program. We believe we have strong defenses to the various RAL cases and will vigorously defend our position. Nevertheless, the amounts claimed by the plaintiffs are, in some instances, very substantial, and there can be no assurances as to the ultimate outcome of the pending RAL cases, or as to the impact of the RAL cases on our financial statements. See additional discussion of RAL Litigation in note 11 to the condensed consolidated financial statements.

MORTGAGE SERVICES

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

Mortgage Services – Operating Statistics

(dollars in 000s)

| Three months ended | October 31, 2004 | October 31, 2003 | July 31, 2004 |
|---|--------------------|--------------------|--------------------|
| Number of loans originated: | | | |
| Wholesale (non-prime) | 34,385 | 36,233 | 37,487 |
| Retail: Prime | 1,365 | 1,944 | 1,697 |
| Non-prime | 5,672 | 4,110 | 4,742 |
| | <u>41,422</u> | <u>42,287</u> | <u>43,926</u> |
| Volume of loans originated: | | | |
| Wholesale (non-prime) | \$5,528,361 | \$5,603,118 | \$5,981,104 |
| Retail: Prime | 183,647 | 247,661 | 215,287 |
| Non-prime | 800,975 | 492,977 | 620,126 |
| | <u>\$6,512,983</u> | <u>\$6,343,756</u> | <u>\$6,816,517</u> |
| Loan characteristics: | | | |
| Weighted average FICO score ⁽¹⁾ | 609 | 611 | 609 |
| Weighted average interest rate for borrowers ⁽¹⁾ | 7.46% | 7.51% | 7.21% |
| Weighted average loan-to-value ⁽¹⁾ | 78.3% | 78.2% | 78.0% |
| Revenue (loan value): | | | |
| Net gain on sale – gross margin ⁽²⁾ | 2.83% | 3.96% | 2.72% |
| Loan delivery: | | | |
| Loan sales | \$6,560,780 | \$6,330,449 | \$6,744,056 |
| Execution price ⁽³⁾ | 2.94% | 3.87% | 4.12% |

(1) Represents non-prime production.

(2) Defined as gain on sale of mortgage loans (including mortgage servicing rights and net of direct origination expenses) divided by origination volume.

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

Mortgage Services – Operating Results

(in 000s)

| Three months ended | October 31, 2004 | October 31, 2003 | July 31, 2004 |
|--------------------------------------|------------------|------------------|------------------|
| Components of gains on sales: | | | |
| Gains on mortgage loans | \$184,589 | \$250,921 | \$185,528 |
| Impairment of residual interests | (34) | (363) | (3,435) |
| | <u>184,555</u> | <u>250,558</u> | <u>182,093</u> |
| Interest income: | | | |
| Accretion – residual interests | 32,172 | 36,843 | 25,663 |
| Other interest income | 2,445 | 606 | 1,439 |
| | <u>34,617</u> | <u>37,449</u> | <u>27,102</u> |
| Loan servicing revenue | 61,907 | 51,659 | 58,855 |
| Other | 555 | 507 | 83 |
| Total revenues | <u>281,634</u> | <u>340,173</u> | <u>268,133</u> |
| Cost of services | | | |
| Compensation and benefits | 53,062 | 48,507 | 52,113 |
| Occupancy | 68,945 | 63,614 | 76,157 |
| Other | 11,327 | 9,550 | 9,964 |
| | <u>42,100</u> | <u>34,476</u> | <u>36,359</u> |
| Total expenses | <u>175,434</u> | <u>156,147</u> | <u>174,593</u> |
| Pretax income | <u>\$106,200</u> | <u>\$184,026</u> | <u>\$ 93,540</u> |

Three months ended October 31, 2004 compared to October 31, 2003

Mortgage Services' revenues decreased \$58.5 million, or 17.2%, for the three months ended October 31, 2004 compared to the prior year. Revenues decreased as a result of a decline in gains on sales of mortgage loans.

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

(dollars in 000s)

| Three months ended October 31, | 2004 | 2003 |
|--|-------------|-------------|
| Application process: | | |
| Total number of applications | 72,699 | 72,858 |
| Number of sales associates ⁽¹⁾ | 3,369 | 2,476 |
| Closing ratio ⁽²⁾ | 57.0% | 58.0% |
| Originations: | | |
| Total number of originations | 41,422 | 42,287 |
| Weighted average interest rate for borrowers (WAC) | 7.46% | 7.51% |
| Average loan size | \$ 157 | \$ 150 |
| Total originations | \$6,512,983 | \$6,343,756 |
| Non-prime / prime origination ratio | 34.5 : 1 | 24.6 : 1 |
| Direct origination expenses, net | \$ 86,239 | \$ 73,776 |
| Revenue (loan value): | | |
| Net gain on sale – gross margin ⁽³⁾ | 2.83% | 3.96% |

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

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

(3) Defined as gain on sale of mortgage loans (including mortgage servicing rights and net of direct origination expenses) divided by origination volume.

Gains on sales of mortgage loans declined \$66.3 million primarily as a result of increased price competition and poorer execution in the secondary market. Market interest rates, based on a two-year swap, increased from 2.19% last year to 2.94% at the end of the current quarter, up 74 basis points. However, our WAC declined five basis points from the prior year, resulting in a decline of 113 basis points in our gross margin, to 2.83% from 3.96% last year. Additionally, direct origination expenses increased \$12.5 million, primarily due to increases in broker incentives and origination volume. During the current quarter, we reclassified the accretion on our beneficial interest in Trusts, which includes actual cash received from the Trusts in excess of those estimated, from interest income to gain on sale. This change was made to more accurately reflect the characteristics of the proceeds received by the beneficial interest holders upon disposition of the loans by the Trusts. Amounts reclassified from interest income to gains on sales for the three months ended October 31, 2003 totaled \$41.3 million. This change had no impact on our net income as previously reported.

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

(dollars in 000s)

| Three months ended October 31, | 2004 | 2003 |
|--------------------------------|---------------------|---------------------|
| Average servicing portfolio: | | |
| With related MSRs | \$39,407,600 | \$30,716,220 |
| Without related MSRs | 11,917,124 | 6,108,813 |
| | <u>\$51,324,724</u> | <u>\$36,825,033</u> |
| Number of loans serviced | 362,430 | 295,636 |
| Average delinquency rate | 5.19% | 6.28% |
| Value of MSRs | \$ 134,062 | \$ 111,960 |

Loan servicing revenues increased \$10.2 million, or 19.8%, compared to the prior year. The increase reflects a higher loan servicing portfolio. The average servicing portfolio for the three months ended October 31, 2004 increased \$14.5 billion, or 39.4%, to \$51.3 billion.

Accretion of residual interests of \$32.2 million for the three months ended October 31, 2004 represents a decrease of \$4.7 million from the prior year. This decrease is primarily due to the sale of previously securitized residual interests during fiscal year 2004, which eliminated future accretion on those residual interests and reduced the balance of residual interests from \$317.6 million at October 31, 2003 to \$261.5 million at October 31, 2004.

During the second quarter of fiscal year 2005, our residual interests continued to perform better than expected compared to internal valuation models. We recorded favorable pretax mark-to-market adjustments, which increased the fair value of our residual interests \$47.1 million during the quarter. These adjustments were recorded, net of write-downs of \$11.7 million and deferred taxes of \$13.5 million, in other comprehensive income and will be accreted into income throughout the remaining life of those residual interests. Future changes in interest rates or other assumptions, based on market conditions or actual loan pool performance, could cause additional adjustments to the fair value of the residual interests and could cause changes to the accretion of these residual interests in future periods. Favorable mark-to-market adjustments on low original value residuals will generally not be accreted into revenues until the residual interest begins to cash flow.

Total expenses for the three months ended October 31, 2004, increased \$19.3 million, or 12.4%, over the year-ago quarter. This increase is partially due to \$5.3 million in increased compensation and benefits as a result of a 36.1% increase in sales associates. We did not achieve the level of loan production in our second quarter that we were staffed to support. Occupancy expenses increased as a result of new branch offices opened since October of last year. Other expenses increased \$7.6 million for the current quarter, primarily due to a \$3.6 million increase in consulting expenses. Costs related to servicing of mortgage loans increased \$4.6 million as a result of a higher average servicing portfolio during the three months ended October 31, 2004.

Pretax income decreased \$77.8 million to \$106.2 million for the three months ended October 31, 2004.

Three months ended October 31, 2004 compared to July 31, 2004

Mortgage Services' revenues increased \$13.5 million, or 5.0%, for the three months ended October 31, 2004, compared to the first quarter. Revenue increased due to higher accretion on residual interests, a decline in impairments of residual interests and increased servicing revenues.

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

(dollars in 000s)

| Three months ended | October 31, 2004 | July 31, 2004 |
|--|------------------|---------------|
| Application process: | | |
| Total number of applications | 72,699 | 74,492 |
| Number of sales associates ⁽¹⁾ | 3,369 | 3,117 |
| Closing ratio ⁽²⁾ | 57.0% | 59.0% |
| Originations: | | |
| Total number of originations | 41,422 | 43,926 |
| Weighted average interest rate for borrowers | 7.46% | 7.21% |
| Average loan size | \$ 157 | \$ 155 |
| Total originations | \$6,512,983 | \$6,816,517 |
| Non-prime / prime origination ratio | 34.5 : 1 | 30.7 : 1 |
| Direct origination expenses, net | \$ 86,239 | \$ 102,878 |
| Revenue (loan value): | | |
| Net gain on sale – gross margin ⁽³⁾ | 2.83% | 2.72% |

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

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

(3) Defined as gain on sale of mortgage loans (including mortgage servicing rights and net of direct origination expenses) divided by origination volume.

Gains on sales of mortgage loans decreased \$0.9 million primarily as a result of lower origination volumes. Loan origination volumes decreased 4.5% from the first quarter primarily due to increased price competition. This decrease was offset by an increase in our gross margin and a \$16.6 million decline in direct origination expenses. Market interest rates have decreased nine basis points since the first quarter, however during the quarter, our WAC increased 25 basis points, resulting in an 11 basis point improvement in our gross margin. Amounts reclassified from interest income to gains on sales for the three months ended July 31, 2004 totaled \$44.6 million. This change had no impact on our net income as previously reported.

Impairments of residual interests in securitizations of \$3.4 million were recognized during the first quarter.

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

(dollars in 000s)

| Three months ended | October 31, 2004 | July 31, 2004 |
|-------------------------------------|---------------------|---------------------|
| Average servicing portfolio: | | |
| With related MSR | \$39,407,600 | \$37,524,221 |
| Without related MSR | 11,917,124 | 10,012,639 |
| | <u>\$51,324,724</u> | <u>\$47,536,860</u> |
| Number of loans serviced | 362,430 | 344,659 |
| Average delinquency rate | 5.19% | 5.01% |
| Value of MSRs | \$ 134,062 | \$ 123,980 |

Loan servicing revenues increased \$3.1 million, or 5.2%, compared to the first quarter. The increase reflects a higher loan servicing portfolio. The average servicing portfolio for the three months ended October 31, 2004 increased \$3.8 billion, or 8.0%.

Accretion of residual interests of \$32.2 million represents an increase of \$6.5 million over the preceding quarter. This increase is due to write-ups in the related asset values during the first half of fiscal year 2005.

Total expenses of \$175.4 million for the current quarter increased \$0.8 million compared to the first quarter. Other expenses increased \$5.7 million for the current quarter, primarily due to a \$2.9 million increase in consulting expenses, a \$1.5 million increase in allocated expenses, and increases in depreciation and other expenses. This increase was offset by a \$7.2 million decline in compensation and benefits, primarily as a result of decreased incentive compensation expenses.

Pretax income increased \$12.7 million, or 13.5%, for the three months ended October 31, 2004 compared to the preceding quarter.

Mortgage Services – Operating Statistics

(dollars in 000s)

| Six months ended October 31, | 2004 | 2003 |
|---|---------------------|---------------------|
| Number of loans originated: | | |
| Wholesale (non-prime) | 71,872 | 64,727 |
| Retail: Prime | 3,062 | 5,949 |
| Non-prime | 10,414 | 7,114 |
| | <u>85,348</u> | <u>77,790</u> |
| Volume of loans originated: | | |
| Wholesale (non-prime) | \$11,509,465 | \$10,008,341 |
| Retail: Prime | 398,934 | 787,987 |
| Non-prime | 1,421,101 | 858,308 |
| | <u>\$13,329,500</u> | <u>\$11,654,636</u> |
| Loan characteristics: | | |
| Weighted average FICO score ⁽¹⁾ | 609 | 609 |
| Weighted average interest rate for borrowers ⁽¹⁾ | 7.33% | 7.53% |
| Weighted average loan-to-value ⁽¹⁾ | 78.1% | 78.2% |
| Revenue (loan value): | | |
| Net gain on sale – gross margin ⁽²⁾ | 2.78% | 4.04% |
| Loan delivery: | | |
| Loan sales | \$13,304,836 | \$11,631,790 |
| Execution price ⁽³⁾ | 3.43% | 4.18% |

(1) Represents non-prime production.

(2) Defined as gain on sale of mortgage loans (including mortgage servicing rights and net of direct origination expenses) divided by origination volume.

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

Mortgage Services – Operating Results

(in 000s)

| Six months ended October 31, | 2004 | 2003 |
|----------------------------------|------------------|------------------|
| Components of gains on sales: | | |
| Gains on mortgage loans | \$370,117 | \$471,061 |
| Impairment of residual interests | (3,469) | (11,106) |
| | <u>366,648</u> | <u>459,955</u> |
| Interest income: | | |
| Accretion – residual interests | 57,835 | 70,906 |
| Other interest income | 3,884 | 816 |
| | <u>61,719</u> | <u>71,722</u> |
| Loan servicing revenue | 120,762 | 99,976 |
| Other | 638 | 1,109 |
| Total revenues | <u>549,767</u> | <u>632,762</u> |
| Cost of services | 105,175 | 91,188 |
| Compensation and benefits | 145,102 | 116,082 |
| Occupancy | 21,291 | 18,847 |
| Other | 78,459 | 58,790 |
| Total expenses | <u>350,027</u> | <u>284,907</u> |
| Pretax income | <u>\$199,740</u> | <u>\$347,855</u> |

Six months ended October 31, 2004 compared to October 31, 2003

Mortgage Services' revenues decreased \$83.0 million, or 13.1%, for the six months ended October 31, 2004 compared to the prior year. Revenues decreased primarily as a result of a decline in gains on sales of mortgage loans.

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

(dollars in 000s)

| Six months ended October 31, | 2004 | 2003 |
|--|--------------|--------------|
| Application process: | | |
| Total number of applications | 147,191 | 135,402 |
| Number of sales associates ⁽¹⁾ | 3,369 | 2,476 |
| Closing ratio ⁽²⁾ | 58.0% | 57.5% |
| Originations: | | |
| Total number of originations | 85,348 | 77,790 |
| Weighted average interest rate for borrowers | 7.33% | 7.53% |
| Average loan size | \$ 156 | \$ 150 |
| Total originations | \$13,329,500 | \$11,654,636 |
| Non-prime / prime origination ratio | 32.4 : 1 | 13.8 : 1 |
| Direct origination expenses, net | \$ 189,117 | \$ 130,244 |
| Revenue (loan value): | | |
| Net gain on sale – gross margin ⁽³⁾ | 2.78% | 4.04% |

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

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

(3) Defined as gain on sale of mortgage loans (including mortgage servicing rights and net of direct origination expenses) divided by origination volume.

Gains on sales of mortgage loans declined \$100.9 million as a result of increased price competition, poorer execution in the secondary market and higher loan origination costs. Market interest rates have increased 106 basis points since April, however our WAC has only increased 27 basis points from 7.06% at April 30, 2004, resulting in a decline in our gross margin of 126 basis points from last year. Additionally, direct origination expenses increased \$58.9 million, primarily due to increases in broker incentives and origination volume. Amounts reclassified from interest income to gains on sales for the six months ended October 31, 2003 totaled \$68.3 million. This change had no impact on our net income as previously reported.

Impairments of residual interests in securitizations of \$3.5 million were recognized in the current period, compared to \$11.1 million for the six months ended October 31, 2003.

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

(dollars in 000s)

| Six months ended October 31, | 2004 | 2003 |
|------------------------------|---------------------|---------------------|
| Average servicing portfolio: | | |
| With related MSR | \$38,436,169 | \$29,708,420 |
| Without related MSR | 10,998,659 | 5,188,500 |
| | <u>\$49,434,828</u> | <u>\$34,896,920</u> |
| Number of loans serviced | 362,430 | 295,636 |
| Average delinquency rate | 5.10% | 6.43% |
| Value of MSR | \$ 134,062 | \$ 111,960 |

Loan servicing revenues increased \$20.8 million, or 20.8%, compared to the prior year. The increase reflects a higher loan-servicing portfolio. The average servicing portfolio for the six months ended October 31, 2004 increased \$14.5 billion, or 41.7%.

Accretion of residual interests of \$57.8 million for the six months ended October 31, 2004 represents a decrease of \$13.1 million from prior year. This decrease is primarily due to the sale of previously securitized residual interests during fiscal year 2004, which eliminated future accretion on those residual interests.

During the first half of fiscal year 2005, our residual interests continued to perform better than expected compared to internal valuation models. We recorded favorable pretax mark-to-market adjustments, which increased the fair value of our residual interests \$113.5 million during the year. These adjustments were recorded, net of write-downs of \$24.7 million and deferred taxes of \$33.9 million, in other comprehensive income and will be accreted into income throughout the remaining life of those residual interests.

Total expenses for the six months ended October 31, 2004, increased \$65.1 million, or 22.9%, over the prior year. This increase is primarily due to \$29.0 million in increased compensation and benefits as a

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result of a 36.1% increase in sales associates. We did not achieve the level of loan production in the current year that we were staffed to support. Other expenses increased \$19.7 million for the current period, primarily due to a \$6.1 million increase in consulting expenses, a \$3.7 million increase in allocated expenses, \$2.4 million in additional travel expenses and increases in depreciation and other expenses. Costs related to servicing of mortgage loans increased \$14.0 million as a result of a higher average servicing portfolio.

Pretax income decreased \$148.1 million to \$199.7 million for the six months ended October 31, 2004.

Fiscal 2005 outlook

Due to continued pressure on our margins, our Mortgage Services segment fiscal year 2005 outlook has declined from the discussion in our April 30, 2004 Form 10-K and our July 31, 2004 Form 10-Q. Based on these assumptions, we expect our mortgage segment pretax income to decline approximately 30% from fiscal year 2004, excluding the gain on sale of previously securitized residual interests. We are investing in technology and seeking other alternatives to lower our cost of origination. Beginning late in our fourth quarter and then more meaningfully in fiscal year 2006, we expect to realize a 50 to 75 basis point improvement in our overall cost of origination, including the effect of potentially higher origination volumes.

BUSINESS SERVICES

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

Business Services – Operating Statistics

| | Three months ended October 31, | | Six months ended October 31, | |
|---------------------------------|--------------------------------|-----------|------------------------------|-----------|
| | 2004 | 2003 | 2004 | 2003 |
| Accounting, tax and consulting: | | | | |
| Chargeable hours | 674,302 | 584,941 | 1,211,337 | 1,101,327 |
| Chargeable hours per person | 322 | 309 | 601 | 581 |
| Net collected rate per hour | \$ 129 | \$ 120 | \$ 126 | \$ 119 |
| Average margin per person | \$ 22,706 | \$ 20,177 | \$ 39,134 | \$ 35,961 |

Business Services – Operating Results

(in 000s)

| | Three months ended October 31, | | Six months ended October 31, | |
|---|--------------------------------|------------|------------------------------|------------|
| | 2004 | 2003 | 2004 | 2003 |
| Service revenues: | | | | |
| Accounting, tax and consulting | \$ 85,298 | \$ 68,669 | \$ 153,658 | \$ 129,570 |
| Capital markets | 14,895 | 17,870 | 30,672 | 34,500 |
| Payroll, benefits and retirement services | 4,827 | 4,864 | 9,481 | 9,422 |
| Other services | 3,230 | 1,755 | 5,693 | 1,755 |
| | 108,250 | 93,158 | 199,504 | 175,247 |
| Other | 20,797 | 15,866 | 38,645 | 32,276 |
| Total revenues | 129,047 | 109,024 | 238,149 | 207,523 |
| Cost of services: | | | | |
| Compensation and benefits | 71,643 | 56,429 | 135,740 | 107,512 |
| Occupancy | 5,933 | 5,510 | 10,539 | 10,457 |
| Other | 8,887 | 7,375 | 17,428 | 14,177 |
| | 86,463 | 69,314 | 163,707 | 132,146 |
| Selling, general and administrative | 47,497 | 42,442 | 89,426 | 84,788 |
| Total expenses | 133,960 | 111,756 | 253,133 | 216,934 |
| Pretax loss | \$ (4,913) | \$ (2,732) | \$ (14,984) | \$ (9,411) |

Three months ended October 31, 2004 compared to October 31, 2003

Business Services' revenues for the three months ended October 31, 2004 increased \$20.0 million, or 18.4%, from the prior year. This increase was primarily due to a \$16.6 million increase in accounting,

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tax and consulting revenues resulting from an increase in the net collected rate per hour and a 15.3% increase in chargeable hours. The increase in chargeable hours is primarily due to the favorable market conditions for all of our core services and the demand for consulting and risk management services. Other service revenues increased \$1.5 million as a result of growth in our financial process outsourcing business.

Other revenues increased \$4.9 million as a result of increases in reimbursable expenses billed to clients and contractor revenues. Capital markets revenues declined \$3.0 million as a result of a 4.2% decrease in the number of business valuation projects.

Total expenses increased \$22.2 million, or 19.9%, for the three months ended October 31, 2004 compared to the prior year. Compensation and benefits increased \$15.2 million, primarily as a result of increases in the average wage per employee, which is being driven by marketplace competition for professional staff, and in the number of personnel. Selling, general and administrative expenses increased \$5.1 million primarily due to increased recruiting expenses and additional costs associated with our strategic growth initiatives. A portion of the increases in each expense category is attributable to investments we are making in early-stage businesses within this segment.

The pretax loss for the three months ended October 31, 2004 was \$4.9 million compared to \$2.7 million in the prior year.

Due to the seasonal nature of this segment's business, operating results for the three months ended October 31, 2004 are not comparable to the three months ended July 31, 2004 and are not indicative of the expected results for the entire fiscal year.

Six months ended October 31, 2004 compared to October 31, 2003

Business Services' revenues for the six months ended October 31, 2004 increased \$30.6 million, or 14.8%, from the prior year. This increase was primarily due to a \$24.1 million increase in accounting, tax and consulting revenues resulting from an increase in the net collected rate per hour and a 10.0% increase in chargeable hours. Other service revenues increased \$3.9 million due to the acquisition of our financial process outsourcing business in the second quarter of last year, coupled with baseline growth in this business. Other revenues increased \$6.4 million as a result of increases in reimbursable expenses billed to clients and contractor revenues. Capital markets revenues declined \$3.8 million as a result of a 13.9% decrease in the number of business valuation projects.

Total expenses increased \$36.2 million, or 16.7%, for the six months ended October 31, 2004 compared to the prior year. Compensation and benefits increased \$28.2 million, primarily as a result of increases in the average wage per employee, which is being driven by marketplace competition for professional staff, and the number of personnel. Other cost of services increased as a result of higher legal fees and settlements, coupled with higher reimbursable expenses billed to clients. Selling, general and administrative expenses increased \$4.6 million primarily due to increased recruiting expenses and additional costs associated with our strategic growth initiatives. A portion of the increases in each expense category is attributable to investments we are making in early-stage businesses within this segment.

The pretax loss for the six months ended October 31, 2004 was \$15.0 million compared to \$9.4 million in the prior year.

Fiscal 2005 outlook

Our fiscal year 2005 outlook for our Business Services segment is unchanged from the discussion in our April 30, 2004 Form 10-K and our July 31, 2004 Form 10-Q.

INVESTMENT SERVICES

This segment is primarily engaged in offering advice-based brokerage services and investment planning. Our integration of investment advice and new service offerings are allowing us to shift our focus from a transaction-based client relationship to a more advice-based focus.

Investment Services – Operating Statistics

| Three months ended | October 31, 2004 | October 31, 2003 | July 31, 2004 |
|---|------------------|------------------|----------------|
| Customer trades ⁽¹⁾ | 192,909 | 232,293 | 205,948 |
| Customer daily average trades | 3,014 | 3,574 | 3,269 |
| Average revenue per trade ⁽²⁾ | \$ 125.13 | \$ 116.22 | \$ 119.71 |
| Active accounts: | | | |
| Traditional brokerage | 444,770 | 474,289 | 454,147 |
| Express IRAs | 334,928 | 228,110 | 337,583 |
| | <u>779,698</u> | <u>702,399</u> | <u>791,730</u> |
| Ending balance of assets under administration (billions) | \$ 27.2 | \$ 25.7 | \$ 26.6 |
| Average assets per active account | \$ 34,924 | \$ 36,589 | \$ 33,592 |
| Average margin balances (millions) | \$ 590 | \$ 514 | \$ 598 |
| Average customer payable balances (millions) | \$ 962 | \$ 959 | \$ 1,012 |
| Number of advisors | 982 | 928 | 997 |
| Included in the numbers above are the following relating to fee-based accounts: | | | |
| Customer accounts | 7,046 | 5,174 | 7,688 |
| Average revenue per account | \$ 2,044 | \$ 1,897 | \$ 1,848 |
| Ending balance of assets under administration (millions) | \$ 1,755 | \$ 1,088 | \$ 1,547 |
| Average assets per active account | \$249,068 | \$210,290 | \$201,198 |

(1) Includes only trades on which commissions are earned (“commissionable trades”).

(2) Calculated as total commissions divided by commissionable trades.

Investment Services – Operating Results

(in 000s)

| Three months ended | October 31, 2004 | October 31, 2003 | July 31, 2004 |
|-------------------------------------|--------------------|--------------------|--------------------|
| Service revenue: | | | |
| Transactional revenue | \$ 19,988 | \$ 22,698 | \$ 19,952 |
| Annuitized revenue | 17,199 | 13,978 | 18,533 |
| Production revenue | 37,187 | 36,676 | 38,485 |
| Other service revenue | 6,527 | 9,878 | 6,262 |
| | <u>43,714</u> | <u>46,554</u> | <u>44,747</u> |
| Margin interest revenue | 10,038 | 8,057 | 8,760 |
| Less: interest expense | (541) | (207) | (299) |
| Net interest revenue | <u>9,497</u> | <u>7,850</u> | <u>8,461</u> |
| Other | 9 | (1,908) | 74 |
| Total revenues ⁽¹⁾ | <u>53,220</u> | <u>52,496</u> | <u>53,282</u> |
| Cost of services: | | | |
| Compensation and benefits | 27,074 | 21,485 | 28,848 |
| Occupancy | 4,753 | 4,189 | 5,688 |
| Depreciation | 1,089 | 1,665 | 1,064 |
| Other | 3,447 | 4,328 | 3,755 |
| | <u>36,363</u> | <u>31,667</u> | <u>39,355</u> |
| Selling, general and administrative | 41,423 | 36,165 | 32,198 |
| Total expenses | <u>77,786</u> | <u>67,832</u> | <u>71,553</u> |
| Pretax loss | <u>\$ (24,566)</u> | <u>\$ (15,336)</u> | <u>\$ (18,271)</u> |

(1) Total revenues, less interest expense.

Three months ended October 31, 2004 compared to October 31, 2003

Investment Services’ revenues, net of interest expense, for the three months ended October 31, 2004 increased \$0.7 million, or 1.4%.

Transactional revenue, which is based on individual securities transactions, decreased \$2.7 million, or 11.9%, from the prior year due primarily to a 17.0% decline in trading volume resulting from the weak

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investment climate. This decline was partially offset by an increase in average revenue per trade of 7.7% over the prior year.

Annuitized revenue, which is based on sales of mutual fund, insurance, fee based products and unit investment trusts, increased \$3.2 million, or 23.0%, due to increased sales of annuities and mutual funds. The shift in revenues between transactional and annuitized revenues illustrates our continued move toward an advice-based focus.

Productivity averaged approximately \$148,000 per advisor during the current quarter compared to \$155,000 per advisor in the prior year. This decline is primarily attributable to market conditions.

Other service revenue declined \$3.4 million, or 33.9%, from the prior year due to lower underwriting fees related to fixed income products.

Margin interest revenue increased 24.6% from the prior year, which is primarily a result of a 14.8% increase in average margin balances and slightly higher rates.

Cost of services increased \$4.7 million, or 14.8%, primarily as a result of \$5.6 million of additional compensation and benefits. This increase is primarily due to higher commission rates than the prior year and financial incentives for new advisors.

Selling, general and administrative expenses increased \$5.3 million over the prior year primarily as the result of a \$6.0 million write-down of a branch office facility and an increase of \$1.7 million in legal expenses, partially offset by gains of \$1.0 million on the disposition of certain assets and a \$1.2 million decrease in incentive compensation expenses.

The pretax loss for Investment Services for the second quarter of fiscal year 2005 was \$24.6 million compared to the prior year loss of \$15.3 million.

Three months ended October 31, 2004 compared to July 31, 2004

Investment Services' revenues, net of interest expense, for the three months ended October 31, 2004 were essentially flat compared to the preceding quarter.

Transactional revenue was also flat compared to the preceding quarter, primarily due to a 6.3% decline in trading volume offset by a 4.5% increase in average revenue per trade. Annuitized revenues declined \$1.3 million, or 7.2%, due to decreased sales of annuities and mutual funds.

A total of 72 new advisors were recruited during the quarter and recruiting efforts are expected to increase throughout the year. However, our total advisor count declined from 997 to 982 during the period as our recruiting efforts were offset by advisor attrition.

Margin interest revenue increased 14.6% from the preceding quarter, which is primarily a result of higher interest rates, partially offset by a 1.3% decrease in average margin balances.

Cost of services declined \$3.0 million primarily due to a \$1.8 million reduction in compensation and benefits, primarily due to lower production revenues.

Selling, general and administrative expenses increased \$9.2 million from the preceding quarter, primarily due to the write-down of a branch office facility, decreased gains on the disposition of assets, and increased legal expenses.

The pretax loss for the Investment Services segment was \$24.6 million, compared to a loss of \$18.3 million in the first quarter.

Investment Services – Operating Statistics

| Six months ended October 31, | 2004 | 2003 |
|---|----------------|----------------|
| Customer trades ⁽¹⁾ | 398,857 | 472,762 |
| Customer daily average trades | 3,166 | 3,582 |
| Average revenue per trade ⁽²⁾ | \$ 122.33 | \$ 121.69 |
| Active accounts: | | |
| Traditional brokerage | 444,770 | 474,289 |
| Express IRAs | 334,928 | 228,110 |
| | <u>779,698</u> | <u>702,399</u> |
| Ending balance of assets under administration (billions) | \$ 27.2 | \$ 25.7 |
| Average assets per active account | \$ 34,924 | \$ 36,589 |
| Average margin balances (millions) | \$ 594 | \$ 508 |
| Average customer payable balances (millions) | \$ 987 | \$ 931 |
| Number of advisors | 982 | 928 |
| Included in the numbers above are the following relating to fee-based accounts: | | |
| Customer accounts | 7,046 | 5,174 |
| Average revenue per account | \$ 2,030 | \$ 1,753 |
| Ending balance of assets under administration (millions) | \$ 1,755 | \$ 1,088 |
| Average assets per active account | \$249,068 | \$210,290 |

(1) Includes only trades on which commissions are earned (“commissionable trades”).

(2) Calculated as total commissions divided by commissionable trades.

Investment Services – Operating Results

(in 000s)

| Six months ended October 31, | 2004 | 2003 |
|-------------------------------------|--------------------|--------------------|
| Service revenue: | | |
| Transactional revenue | \$ 39,940 | \$ 48,154 |
| Annuitized revenue | 35,732 | 26,821 |
| Production revenue | 75,672 | 74,975 |
| Other service revenue | 12,789 | 17,854 |
| | <u>88,461</u> | <u>92,829</u> |
| Margin interest revenue | 18,798 | 16,587 |
| Less: interest expense | (840) | (817) |
| Net interest revenue | <u>17,958</u> | <u>15,770</u> |
| Other | 83 | 274 |
| Total revenues ⁽¹⁾ | <u>106,502</u> | <u>108,873</u> |
| Cost of services: | | |
| Compensation and benefits | 55,922 | 46,874 |
| Occupancy | 10,441 | 10,304 |
| Depreciation | 2,153 | 3,674 |
| Other | 7,202 | 8,330 |
| | <u>75,718</u> | <u>69,182</u> |
| Selling, general and administrative | 73,621 | 68,784 |
| Total expenses | <u>149,339</u> | <u>137,966</u> |
| Pretax loss | <u>\$ (42,837)</u> | <u>\$ (29,093)</u> |

(1) Total revenues, less interest expense.

Six months ended October 31, 2004 compared to October 31, 2003

Investment Services’ revenues, net of interest expense, for the six months ended October 31, 2004 decreased \$2.4 million, or 2.2%. The decrease is primarily due to the weak investment climate.

Transactional revenue decreased \$8.2 million, or 17.1%, from the prior year due primarily to a 15.6% decline in trading volume. This decline was marginally offset by an increase in the average revenue per trade.

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Annuitized revenues increased \$8.9 million, or 33.2%, due to increased sales of annuities and mutual funds. The shift in revenues from transactional to annuitized demonstrates our continued move toward an advice-based focus. Additionally, we are seeing our new recruits coming in with more of an advice-based background, which will further support our efforts.

Other service revenue declined \$5.1 million, or 28.4%, from the prior year due to fewer fixed income underwriting offerings.

Margin interest revenue increased 13.3% from the prior year, which is primarily a result of a 16.9% increase in average margin balances. Margin balances have increased from an average of \$508 million for the six months ended October 31, 2003 to \$594 million in the current period.

Total expenses increased \$11.4 million, or 8.2%, primarily as a result of a \$6.5 million increase in cost of services. During the current year we incurred \$9.0 million of additional compensation and benefits primarily due to a higher average commission rate than the prior year and financial incentives for new advisors. This increase was partially offset by a decline in depreciation costs as a result of the consolidation of field offices. Other cost of services declined as a result of a reduction in property taxes as field offices were sold over the past year.

Selling, general and administrative expenses increased \$4.8 million over the prior year primarily as the result of the \$6.0 million write-down of a branch office facility and an increase of \$2.7 million in legal expenses. This increase was partially offset by a decrease in incentive compensation expenses and gains of \$4.2 million on the disposition of certain assets.

The pretax loss for Investment Services was \$42.8 million compared to the prior year loss of \$29.1 million.

Fiscal 2005 outlook

In our April 30, 2004 Form 10-K and our July 31, 2004 Form 10-Q, we indicated our goal was to hire between 250 and 300 experienced advisors by the end of fiscal year 2005. As of the end of our second quarter, we have achieved our planned recruiting levels. We remain optimistic that we will reach our year-end recruiting goal, however we are experiencing higher advisor attrition than we planned. Additionally, we indicated that we expected to see continued financial improvements, but still report a loss for fiscal year 2005. Given our performance to date and revised internal forecasts, we expect our fiscal year 2005 pretax loss to be slightly higher than the prior year.

CORPORATE

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

Corporate – Operating Results

(in 000s)

| | Three months ended October 31, | | Six months ended October 31, | |
|--------------------------------------|--------------------------------|--------------------|------------------------------|--------------------|
| | 2004 | 2003 | 2004 | 2003 |
| Operating revenues | \$ 2,432 | \$ 2,253 | \$ 6,865 | \$ 4,981 |
| Eliminations | (1,725) | (1,565) | (4,710) | (2,965) |
| Total revenues | <u>707</u> | <u>688</u> | <u>2,155</u> | <u>2,016</u> |
| Corporate expenses: | | | | |
| Compensation and benefits | 2,681 | 930 | 6,122 | 3,999 |
| Interest expense on acquisition debt | 17,515 | 17,074 | 34,658 | 34,746 |
| Other | 10,226 | 1,638 | 17,014 | 8,954 |
| | <u>30,422</u> | <u>19,642</u> | <u>57,794</u> | <u>47,699</u> |
| Support departments: | | | | |
| Information technology | 27,234 | 26,738 | 52,412 | 49,951 |
| Marketing | 7,691 | 5,430 | 11,262 | 8,094 |
| Finance | 8,706 | 8,835 | 17,513 | 15,734 |
| Other | 26,366 | 17,192 | 46,595 | 28,015 |
| | <u>69,997</u> | <u>58,195</u> | <u>127,782</u> | <u>101,794</u> |
| Allocation of support departments | (69,995) | (58,021) | (127,799) | (101,798) |
| Investment income, net | 1,044 | 687 | 2,176 | 2,254 |
| Pretax loss | <u>\$ (28,673)</u> | <u>\$ (18,441)</u> | <u>\$ (53,446)</u> | <u>\$ (43,425)</u> |

Three months ended October 31, 2004 compared to October 31, 2003

Corporate expenses increased \$10.8 million primarily due to new business development activities that resulted in higher allocations from the information technology, legal and human resource departments, and increases in consulting and insurance costs.

Marketing department expenses increased \$2.3 million, or 41.6%, primarily due to additional advertising for tax courses. Other department expenses increased primarily due to \$3.7 million of additional stock-based compensation expenses and increases in the cost of employee insurance and supply sales to franchisees.

The pretax loss was \$28.7 million, compared with last year's second quarter loss of \$18.4 million.

Due to the nature of this segment, the three months ended October 31, 2004 are not comparable to the three months ended July 31, 2004 and are not indicative of the expected results for the entire fiscal year.

Six months ended October 31, 2004 compared to October 31, 2003

Corporate expenses increased \$10.1 million primarily due to new business development activities that resulted in increases in consulting and insurance costs, as well as increased allocations from the information technology, legal and human resource departments.

Information technology department expenses increased \$2.5 million, or 4.9%, primarily due to an increase in resources needed to support additional projects on behalf of operating segments and other support departments. Marketing department expenses increased \$3.2 million, or 39.1%, primarily due to additional advertising for tax courses. Other department expenses increased primarily due to \$7.2 million of additional stock-based compensation expenses, increases in the cost of employee insurance and additional supply sales to the operating segments.

The pretax loss was \$53.4 million, compared with last year's loss of \$43.4 million.

FINANCIAL CONDITION

These comments should be read in conjunction with the condensed consolidated balance sheets and condensed consolidated statements of cash flows found on pages 1 and 3, respectively.

CAPITAL RESOURCES & LIQUIDITY BY SEGMENT

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

Cash From Operations. Cash used in operations totaled \$675.1 million and \$463.4 million for the six months ended October 31, 2004 and 2003, respectively. The increase in cash used in operating activities is primarily due to Tax Services and income tax payments. Tax Services used \$45.9 million more in cash for off-season costs and working capital requirements compared to the six months ended October 31, 2003. Additionally, income tax payments totaled \$316.8 million during the current year, an increase of \$145.9 million over the prior year, due to a change in a tax accounting method, which resulted in the acceleration of taxable income within our Mortgage Services segment.

Issuance of Common Stock. We issue shares of common stock, in accordance with our stock-based compensation plans, out of treasury shares. Proceeds from the issuance of common stock totaled \$53.9 million and \$59.9 million for the six months ended October 31, 2004 and 2003, respectively.

Debt. On October 26, 2004, we issued \$400.0 million of 5.125% Senior Notes under a shelf registration statement. The Senior Notes are due on October 30, 2014, and are not redeemable by the bondholders prior to maturity. The proceeds from the notes will be used to repay our \$250.0 million in 6¾% Senior Notes, which were due on November 1, 2004. The remaining proceeds will be used for working capital, capital expenditures, repayment of other debt and other general corporate purposes. The proceeds are included in cash and cash equivalents on the condensed consolidated balance sheet at October 31, 2004.

As of October 31, 2004, we had commercial paper borrowings of \$316.1 million outstanding. Commercial paper issuance during the six months supported various cash requirements including share repurchases, income taxes, annual incentive compensation obligations and other off-season working capital needs.

Dividends. Dividends paid totaled \$70.0 million and \$68.1 million for the six months ended October 31, 2004 and 2003, respectively.

Share Repurchases. On June 9, 2004, our Board of Directors approved an authorization to repurchase 15 million shares. This authorization is in addition to the authorization of 20 million shares on June 11, 2003. During the six months ended October 31, 2004, we repurchased 11.2 million shares pursuant to these authorizations at an aggregate price of \$527.5 million or an average price of \$46.98 per share. There are 15.1 million shares remaining under these authorizations at October 31, 2004. We plan to continue to purchase shares on the open market in accordance with these authorizations, subject to various factors including the price of the stock, the availability of excess cash, our ability to maintain liquidity and financial flexibility, securities laws restrictions and other investment opportunities available.

Restricted Cash. We hold certain cash balances that are restricted as to use. Cash and cash equivalents — restricted totaled \$496.8 million at October 31, 2004. Investment Services held \$454.0 million of this total segregated in a special reserve account for the exclusive benefit of customers. Investment Services' restricted cash balance has fallen from \$531.6 million at the beginning of fiscal year 2005. Restricted cash of \$19.2 million at October 31, 2004 held by Business Services is related to funds held to pay payroll taxes on behalf of its customers. Restricted cash held by Mortgage Services totaled \$23.6 million and is held for outstanding commitments to fund mortgage loans.

Segment Cash Flows. A condensed consolidating statement of cash flows by segment for the six months ended October 31, 2004 follows. Generally, interest is not charged on intercompany activities between segments.

| | Tax Services | Mortgage Services | Business Services | Investment Services | Corporate | Consolidated H&R Block |
|-----------------------------|-----------------|----------------------|----------------------|------------------------|-------------|---------------------------|
| Cash provided by (used in): | | | | | | |
| Operations | \$(297,873) | \$ 41,879 | \$(16,424) | \$25,712 | \$(428,381) | \$(675,087) |
| Investing | (15,385) | 50,028 | (9,505) | 13,474 | (13,718) | 24,894 |
| Financing | 456 | — | (11,604) | — | 165,461 | 154,313 |
| Net intercompany | 334,241 | (89,134) | 36,920 | 3,260 | (285,287) | — |

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

Tax Services. Tax Services has historically been our largest provider of annual operating cash flows. The seasonal nature of Tax Services generally results in a large positive operating cash flow in the fourth quarter. Tax Services used \$297.9 million in its first and second quarter operations to cover off-season costs and working capital requirements.

Mortgage Services. This segment primarily generates cash as a result of the sale and securitization of mortgage loans and residual interests, and as its residual interests begin to cash flow. Mortgage Services provided \$41.9 million in cash from operating activities and \$50.0 million in cash from investing activities primarily related to cash received from residual interests.

Gains on sales. Gains on sales of mortgage loans and related assets totaled \$366.6 million, with the cash received primarily recorded as operating activities. The percentage of cash proceeds we receive from our capital market transactions, which are included within the gains on sales of mortgage assets, is reconciled below.

| Six months ended October 31, | 2004 | 2003 |
|--|-------------------|-------------------|
| Cash proceeds: | | |
| Whole loans sold by the Trusts | \$ 398,027 | \$ 298,460 |
| Residual cash flows from Beneficial Interest in Trusts | 95,211 | 66,223 |
| Loans securitized | 21,620 | 129,617 |
| | <u>514,858</u> | <u>494,300</u> |
| Non-cash: | | |
| Retained mortgage servicing rights | 58,894 | 48,002 |
| Additions to balance sheet ⁽¹⁾ | 15,270 | 1,814 |
| | <u>74,164</u> | <u>49,816</u> |
| Portion of gain on sale related to capital market transactions | <u>589,022</u> | <u>544,116</u> |
| Other items included in gain on sale: | | |
| Changes in beneficial interest in Trusts | (27,858) | 56,576 |
| Impairments to fair value of residual interests | (3,469) | (11,106) |
| Net change in fair value of rate-lock commitments | (1,930) | 613 |
| Direct origination expenses, net | <u>(189,117)</u> | <u>(130,244)</u> |
| | <u>(222,374)</u> | <u>(84,161)</u> |
| Reported gains on sales of mortgage assets | <u>\$ 366,648</u> | <u>\$ 459,955</u> |
| Percent of gain on sale related to capital market transactions received as cash ⁽²⁾ | 87% | 91% |

(1) Includes residual interests and interest rate caps.

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

Warehouse Funding. To finance our prime originations, we utilize an on-balance sheet warehouse facility with capacity up to \$25 million. This annual facility bears interest at one-month LIBOR plus 140 to 200 basis points. As of October 31, 2004 and April 30, 2004 the balance outstanding under this facility was \$3.6 million and \$4.0 million, respectively.

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To fund our non-prime originations, we utilize five off-balance sheet warehouse Trusts. The facilities used by the Trusts had a total capacity of \$8.0 billion as of October 31, 2004. The Mortgage Services segment is planning to implement a \$3.0 billion on-balance sheet commercial paper conduit program by the end of fiscal year 2005. At that time, we will reduce the warehouse facilities to \$7.0 billion. This will bring total available warehouse capacity to approximately \$10.0 billion.

We believe the sources of liquidity available to the Mortgage Services segment are sufficient for its needs.

Business Services. Business Services funding requirements are largely related to receivables for completed work and “work in process.” We provide funding sufficient to cover their working capital needs. This segment used \$16.4 million in operating cash flows during the first half of the year.

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

At October 31, 2004, HRBFA’s net capital of \$121.2 million, which was 18.6% of aggregate debit items, exceeded its minimum required net capital of \$13.0 million by \$108.2 million. During the first half of fiscal year 2005, we contributed additional capital of \$10.0 million, even though HRBFA was in excess of the minimum net capital requirement, and we may continue to do so in the future.

In the first half of fiscal year 2005, Investment Services provided \$25.7 million from its operating activities primarily due to the timing of cash deposits that are restricted for the benefit of customers.

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

Pledged securities at October 31, 2004 totaled \$48.0 million, an excess of \$5.0 million over the margin requirement. Pledged securities at the end of fiscal year 2004 totaled \$46.3 million, an excess of \$7.9 million over the margin requirement.

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

OFF-BALANCE SHEET FINANCING ARRANGEMENTS

Substantially all non-prime mortgage loans we originate are sold daily to the Trusts. The Trusts purchase the loans from us utilizing five warehouse facilities, arranged by us. The warehouse facilities were increased to \$8.0 billion during the second quarter, bear interest at one-month LIBOR plus 50 to 200 basis points and expire on various dates during the year.

There have been no other material changes in our off-balance sheet financing arrangements from those reported at April 30, 2004 in our Annual Report on Form 10-K.

COMMERCIAL PAPER ISSUANCE

We maintain unsecured CLOCs to support our commercial paper program and for general corporate purposes. During the second quarter, we replaced our \$2.0 billion CLOC with two CLOCs. The two CLOCs are from a consortium of thirty-one banks. The first \$1.0 billion CLOC is subject to annual renewal in August 2005, has a one-year term-out provision with a maturity date in August 2006 and has an annual facility fee of ten basis points per annum. The second \$1.0 billion CLOC has a maturity date of August 2009 and has an annual facility fee of twelve basis points per annum. These lines are subject to various affirmative and negative covenants, including a minimum net worth covenant. These CLOCs are for working capital use, general corporate purposes and commercial paper back up.

At October 31, 2004, there was no commercial paper outstanding under the Block Canada commercial paper program.

There have been no other material changes in our commercial paper program from those reported at April 30, 2004 in our Annual Report on Form 10-K.

CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS

There have been no material changes in our contractual obligations and commercial commitments from those reported at April 30, 2004 in our Annual Report on Form 10-K.

REGULATORY ENVIRONMENT

There have been no material changes in our regulatory environment from those reported at April 30, 2004 in our Annual Report on Form 10-K.

FORWARD-LOOKING INFORMATION

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

There have been no material changes in our risk factors from those reported at April 30, 2004 in our Annual Report on Form 10-K.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes in our market risks from those reported at April 30, 2004 in our Annual Report on Form 10-K.

CONTROLS AND PROCEDURES

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

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

As of October 31, 2004, we evaluated the effectiveness of the design and operation of our Disclosure Controls. The controls evaluation was done under the supervision and with the participation of management, including our CEO and CFO.

The evaluation of our Disclosure Controls included a review of the controls’ objectives and design, our implementation of the controls and the effect of the controls on the information generated for use in this Form 10-Q. In our Form 10-K for the year ended April 30, 2004, we reported a series of control weaknesses related to our corporate tax accounting function. These weaknesses related specifically to the reconciliation and level of detailed support of both current and deferred income tax accounts. We also determined an acceleration of taxable income was warranted in one of our segments, although there was no change to our total income tax provision. Upon identification of these control weaknesses,

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immediate corrective action was undertaken. Our efforts to strengthen financial and internal controls continue. We expect these efforts to be completed by the end of fiscal year 2005.

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

PART II — OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The information below should be read in conjunction with the information included in note 11 to our condensed consolidated financial statements.

RAL Litigation

We reported in current reports on Form 8-K, previous quarterly reports on Form 10-Q and in our annual report on Form 10-K for the year ended April 30, 2004, certain events and information regarding lawsuits throughout the country regarding our refund anticipation loan programs (collectively, "RAL Cases"). The RAL Cases have involved a variety of legal theories asserted by plaintiffs. These theories include allegations that, among other things, disclosures in the RAL applications were inadequate, misleading and untimely, the RAL interest rates were usurious and unconscionable, we did not disclose that we would receive part of the finance charges paid by the customer for such loans, breach of state laws on credit service organizations, breach of contract, unjust enrichment, unfair and deceptive acts or practices, violations of the Racketeer Influenced and Corrupt Organizations (RICO) Act, violations of the Fair Debt Collection Practices Act and we owe and breached a fiduciary duty to our customers in connection with the RAL program.

The amounts claimed in the RAL Cases have been substantial in some instances. We have successfully defended against numerous RAL Cases, although several of the RAL Cases are still pending. Of these RAL Cases that are no longer pending, some were dismissed on our motions for dismissal or summary judgment and others were dismissed voluntarily by the plaintiffs after denial of class certification. Other cases were settled, with one settlement resulting in a pretax expense of \$43.5 million in fiscal year 2003 (the "Texas RAL Settlement").

We continue to believe we have meritorious defenses to the RAL Cases, and we intend to defend the remaining RAL Cases vigorously. There can be no assurances, however, as to the outcome of the pending RAL Cases individually or in the aggregate. Furthermore, there can be no assurances regarding the impact of the RAL Cases on our financial statements. We have accrued our best estimate of the probable loss related to the RAL Cases. The following is updated information regarding the pending RAL Cases in which developments occurred during or after the three months ended October 31, 2004:

Lynne A. Carnegie, et al. v. Household International, Inc., H&R Block, Inc., et al., (formerly Joel E. Zawikowski, et al. v. Beneficial National Bank, H&R Block, Inc., Block Financial Corporation, et al.) Case No. 98 C 2178, United States District Court for the Northern District of Illinois, Eastern Division, instituted on April 18, 1998. On April 15, 2003, the District Court judge declined to approve a \$25.0 million settlement of this matter, finding that counsel for the settlement plaintiffs had been inadequate representatives of the plaintiff class and failed to sustain their burden of showing that the settlement was fair. The judge subsequently appointed new counsel for the plaintiffs who filed an amended complaint and a motion for partial summary judgment. On March 29, 2004, the court either dismissed or decertified all of the plaintiffs' claims other than part of one count alleging violations of the racketeering and conspiracy provisions of the RICO Act. The United States Court of Appeals for the Seventh Circuit subsequently affirmed the trial court's certification of a nationwide class on the RICO count. The case is scheduled to go to trial in March 2005. We intend to continue defending the case vigorously, but there are no assurances as to its outcome.

Joyce Green, et al. v. H&R Block, Inc., Block Financial Corporation, et al., Case No. 97195023, in the Circuit Court for Baltimore City, Maryland, instituted on July 14, 1997. Our Board of Directors approved a proposed settlement of the case on September 8, 2004. During the process of finalizing the settlement agreement, the parties were unable to reach agreement regarding certain settlement terms. We intend to continue defending the case vigorously, but there is no assurance as to its outcome.

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Deandra D. Cummins, et al. v. H&R Block, Inc., et al., Case No. 03-C-134 in the Circuit Court of Kanawha County, West Virginia. A class certification hearing commenced in October 2004 and was continued until December 22, 2004. A decision on class certification is expected in early 2005, and the case is scheduled to go to trial in October 2005.

Peace of Mind Litigation

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

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

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

Other Claims and Litigation

As with other broker-dealers, HRBFA has been the subject of an investigation by the National Association of Securities Dealers, Inc. (NASD) regarding the market timing of mutual funds. The investigation concerns the trading activity by two former financial advisors, primarily on behalf of one of HRBFA's clients. HRBFA has cooperated with the NASD and has had substantive settlement discussions. While these discussions have not concluded, we anticipate that the matter will be resolved in the near future, although we cannot provide assurance regarding the ultimate resolution of this matter, we believe the resolution will not have a material adverse effect on our operations, consolidated results of operations or financial position.

As reported in a current report on Form 8-K dated November 8, 2004, the NASD brought charges against HRBFA related to the sale by HRBFA of Enron debentures in 2001. A private civil action subsequently was filed against HRBFA concerning the matter raised in the NASD's charges. We intend to defend the charges vigorously. There can be no assurances as to the outcome and resolution of this matter.

As part of an industry-wide review, the Internal Revenue Service (IRS) is investigating tax-planning strategies that certain RSM clients utilized during fiscal years 2000 through 2003. Specifically, the IRS is examining these strategies to determine whether RSM complied with tax shelter registration and listing regulations and whether such strategies were appropriate. If the IRS were to determine that these

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strategies were inappropriate, clients that utilized the strategies could face penalties and interest for underpayment of taxes and may attempt to seek recovery from RSM. There can be no assurances as to the outcome of this matter.

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

We have from time to time been party to claims and lawsuits not discussed herein arising out of our business operations. These claims and lawsuits include actions by individual plaintiffs, as well as cases in which plaintiffs seek to represent a class of similarly situated customers. The amounts claimed in these claims and lawsuits are substantial in some instances, and the ultimate liability with respect to such litigation and claims is difficult to predict. Some of these claims and lawsuits pertain to RALs and the Peace of Mind guarantee program. Others are claims and lawsuits that we consider to ordinary, routine litigation incidental to our business, including claims and lawsuits ("Other Claims") concerning the Express IRA program and the preparation of customers' income tax returns, the electronic filing of customers' tax returns, the fees charged customers for various products and services, losses incurred by customers with respect to their investment accounts, relationships with franchisees, denials of mortgage loans, contested mortgage foreclosures, other aspects of the mortgage business, intellectual property disputes, and contract disputes. We believe we have meritorious defenses to each of the Other Claims, and we are defending, or intend to defend, them vigorously. While we cannot provide assurance that we will ultimately prevail in each instance, we believe the amount, if any, we are required to pay in the discharge of liabilities or settlements in these other matters will not have a material adverse effect on our consolidated results of operations or financial position.

ITEM 2. CHANGES IN SECURITIES AND USES OF PROCEEDS

A summary of our purchases of H&R Block common stock during the second quarter of fiscal year 2005 is as follows:

(shares in 000s)

| | Total Number of Shares Purchased ⁽¹⁾ | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs ⁽²⁾ | Maximum Number of Shares that May Be Purchased Under the Plans or Programs ⁽²⁾ |
|----------------------------|---|------------------------------------|--|--|
| August 1 – August 31 | 1,484 | \$48.60 | 1,484 | 17,430 |
| September 1 – September 30 | 1,375 | \$48.16 | 1,374 | 16,056 |
| October 1 – October 31 | 952 | \$46.06 | 952 | 15,104 |

(1) Of the total number of shares purchased, 927 shares were purchased in connection with the funding of employee income tax withholding obligations arising upon the exercise of stock options or the lapse of restrictions on restricted shares.

(2) On June 11, 2003 and June 9, 2004, our Board of Directors approved the repurchase of 20 million shares and 15 million shares, respectively, of H&R Block, Inc. common stock. These authorizations have no expiration dates.

Our Articles of Incorporation were amended on September 30, 2004 to increase the number of authorized shares of common stock, without par value, from 500,000,000 shares to 800,000,000 shares. The aggregate number of shares of all classes of stock that we now have authority to issue is 806,000,000, with 800,000,000 authorized shares of common stock and 6,000,000 authorized shares of a class designated preferred stock, without par value. The amendment to the Articles of Incorporation was approved by our shareholders at the annual meeting of shareholders held on September 8, 2004. The Certificate of Amendment is filed as Exhibit 3.1 to this Form 10-Q, and the Restated Articles of Incorporation, incorporating all amendments thereto, are filed as Exhibit 3.2 to this Form 10-Q.

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

The annual meeting of shareholders of the registrant was held on September 8, 2004. At such meeting, three Class III directors were elected to serve three-year terms. In addition, the proposals set forth below were submitted to a vote of shareholders. With respect to the election of directors and the adoption of each

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proposal, the number of votes cast for, against or withheld, the number of abstentions, and the number of no votes (if applicable) were as follows:

Election of Class III Directors:

| Nominee | Votes FOR | Votes WITHHELD |
|----------------------|------------------|-----------------------|
| Donna R. Ecton | 143,089,287 | 3,003,702 |
| Louis W. Smith | 143,702,345 | 2,390,644 |
| Rayford Wilkins, Jr. | 133,272,098 | 12,820,891 |

Approval of an Amendment to the Company's Articles of Incorporation to increase the number of shares of Common Stock from 500,000,000 to 800,000,000

| | |
|---------------|-------------|
| Votes For | 131,169,406 |
| Votes Against | 14,441,014 |
| Abstain | 482,569 |

Approval of an Amendment to the 1989 Stock Option Plan for Outside Directors to extend the plan for five years, such that it will terminate, unless further extended, on December 5, 2009

| | |
|---------------|-------------|
| Votes For | 101,491,697 |
| Votes Against | 9,582,901 |
| Abstain | 630,352 |

Approval of an Amendment to the 1999 Stock Option Plan for Seasonal Employees to (i) extend the Plan for two years, such that it will terminate, unless further extended, on December 31, 2006 and (ii) increase the aggregate number of authorized shares of Common Stock issuable under the Plan from 20,000,000 to 23,000,000

| | |
|---------------|------------|
| Votes For | 86,237,154 |
| Votes Against | 25,004,641 |
| Abstain | 463,156 |

Ratification of the Appointment of KPMG LLP as the Registrant's Independent Accountants for the year ended April 30, 2005

| | |
|----------------|-------------|
| Votes For: | 143,615,698 |
| Votes Against: | 2,120,943 |
| Abstain: | 356,347 |

At the close of business on June 30, 2004, the record date for the annual meeting of shareholders, there were 167,770,955 shares of Common Stock of the registrant outstanding and entitled to vote at the meeting. There were 146,092,989 shares represented at the annual meeting of shareholders held on September 8, 2004.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

a) Exhibits

- 3.1 Certificate of Amendment to Articles of Incorporation dated September 30, 2004.
- 3.2 Restated Articles of Incorporation, as amended to the date of this Form 10-Q.
- 10.1 Employment Agreement dated September 15, 2005, by and between HRB Management, Inc. and Marc West.

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- 10.2 Standard Form of Agreement Between Owner and Deign/Builder dated as of May 5, 2003 by and between H&R Block Tax Services, Inc. and J.E. Dunn Construction Company.
- 10.3 First Amendment to Third Amended and Restated Refund Anticipation Loan Participation Amendment, dated as of August 20, 2004, by and among Block Financial Corporation, Household Tax Masters, Inc. and Household Tax Masters Acquisition Corporation.
- 10.4 2004 Amendment to Second Amended and Restated Refund Anticipation Loan Operations Agreement dated as of August 20, 2004, by and among H&R Block Services, Inc., Household Tax Masters, Inc., and Beneficial Franchise Company. *
- 10.5 The 1989 Stock Option Plan for Outside Directors, as amended and restated as of September 8, 2004.
- 31.1 Certification by Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification by Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification by Chief Executive Officer furnished pursuant to 18 U.S.C. 1350, as adopted by Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification by Chief Financial Officer furnished pursuant to 18 U.S.C. 1350, as adopted by Section 906 of the Sarbanes-Oxley Act of 2002.
- * Confidential information has been omitted from this exhibit and filed separately with the Commission pursuant to a confidential treatment request under Rule 24b-2.

b) Reports on Form 8-K

The registrant filed current reports on Form 8-K and Form 8-K/A, each dated August 24, 2004, reporting under Item 2.02 thereof its issuance of a press release announcing the results of operations for its first quarter ending July 31, 2004.

The registrant filed current reports on Form 8-K and Form 8-K/A, each dated September 9, 2004, reporting under Item 1.01 and/or Item 5.02 thereof its appointment of a Chief Financial Officer.

The registrant filed a current report on Form 8-K dated October 18, 2004, reporting under Items 5.02 and 9.01 thereof its issuance of a press release announcing the election of a new member to its Board of Directors.

The registrant filed a current report on Form 8-K dated October 21, 2004, reporting under Items 1.01, 8.01 and 9.01 thereof its entry into an underwriting agreement in connection with its debt offering.

SIGNATURES

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

| | | |
|--------------|----|--|
| | | <u>H&R BLOCK, INC.</u> (Registrant) |
| DATE 12/8/04 | BY | <u>/s/ Mark A. Ernst</u> Mark A. Ernst Chairman of the Board, President and Chief Executive Officer |
| DATE 12/8/04 | BY | <u>/s/ William L. Trubeck</u> William L. Trubeck Executive Vice President and Chief Financial Officer |

STATE OF MISSOURI

[SEAL]

Matt Blunt
Secretary of State

CERTIFICATE OF AMENDMENT

WHEREAS,

H&R BLOCK, INC.
00085500

a corporation organized under The General and Business Corporation Law has delivered to me a Certificate of Amendment of its Articles of Incorporation and has in all respects complied with the requirements of law governing the Amendment of Articles of Incorporation under The General Business Corporation Law, and that the Articles of Incorporation of said corporation are amended in accordance therewith.

IN TESTIMONY WHEREOF, I have set
my hand and imprinted the GREAT SEAL
of the State of Missouri, on this, the 30th
day of September, 2004.

[SEAL]

/s/ MATT BLUNT

Secretary of State

[SEAL]

FILE NUMBER: 200427421111

00085500

STATE OF MISSOURI
MATT BLUNT, SECRETARY OF STATE

DATE FILED: 09/30/2004
MATT BLUNT
SECRETARY OF STATE

Corporations Division
P.O. Box 778 / 600 W. Main Street, [ILLEGIBLE]
[ILLEGIBLE]City, MO 65102

AMENDMENT OF ARTICLES OF INCORPORATION
FOR A GENERAL BUSINESS OR CLOSE CORPORATION

Pursuant to the provisions of the General and Business Corporation Law of Missouri, the undersigned Corporation certifies the following;

1. The present name of the Corporation is H&R Block, Inc.

The name under which it was originally organized was United Business, Incorporated, of Missouri

2. An amendment to the Corporation's Articles of Incorporation was adopted by the shareholders on September 8, 2004

month/day/year

3. Article Number Three is amended to read as follows:

ARTICLE THREE, as heretofore amended, is further amended by deleting the first sentence thereof in its entirety and substituting therefor the following:

ARTICLE THREE

The aggregate number of shares of all classes of stock which the corporation shall have authority to issue is 806,000,000 divided into two classes as follows:

(i) 800,000,000 shares of a class designated Common Stock, without par value; and

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

(If more than one article is to be amended or more space is needed attach additional pages)

Name and address to return filed document:

Name: Brenda Becker
Address: 4400 Main Street
City, State, and Zip Code: Kansas City, MO 64111

State of Missouri
Amend/Restate - Gen Bus 2 Page(s)

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4. Of the 167,770,961 shares outstanding, 167,770,961 of such shares were entitled to vote on such amendment.

The number of outstanding shares of any class entitled to vote thereon as a class were as follows:

| Class | Number of Outstanding Shares |
|--------|------------------------------|
| Common | 167,770,961 |

5. The number of shares voted for and against the amendment was as follows:

| Class | No. Voted For | No. Voted Against |
|--------|---------------|-------------------|
| Common | 131,169,406 | 14,441,014 |

6. If the amendment provides for an exchange, reclassification, or cancellation of issued shares, or a reduction of the number of authorized shares of any class below the number of issued shares of that class, the following is a statement of the manner in which such reduction shall be effected:
n/a

7. If the effective date of the amendment is to be a date other than the date of filing of the certificate of amendment with the Secretary of State, then the effective date, which shall be no more than 90 days following the filing date, shall be specified: _____.

In Affirmation thereof, the facts stated above are true and correct:
(The undersigned understands that false statements made in this filing are subject to the penalties provided under Section 575.040, RSMo)

| | | | |
|----------------------|----------------|--------------------------|---------|
| /s/ Bret G. Wilson | Bret G. Wilson | Vice President/Secretary | 9/20/04 |
| ----- | ----- | ----- | ----- |
| Authorised Signature | Printed Name | Title | Date |

M0007-08/31/04 CT System Online

CORP. 44 (08/04)

RESTATED ARTICLES OF INCORPORATION
OF
H & R BLOCK, INC.
(As amended through September 8, 2004)

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

ARTICLE ONE

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

ARTICLE TWO

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

ARTICLE THREE

The aggregate number of shares of all classes of stock which the corporation shall have authority to issue is 806,000,000 divided into two classes as follows:

- (i) 800,000,000 shares of a class designated Common Stock, without par value; and
- (ii) 6,000,000 shares of a class designated Preferred Stock, without par value.

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

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

- (a) The distinctive serial designation;

- (b) The number of shares of the series, which number may at any time or from time to time be increased or decreased (but not below the number of shares of such series then outstanding) by the Board of Directors;
- (c) The voting powers and, if voting powers are granted, the extent of such voting powers including the right, if any, to elect a director or directors;
- (d) The election, term of office, filling of vacancies and other terms of the directorships of directors elected by the holders of any one or more classes or series of such stock;
- (e) The dividend rights, including the dividend rate and the dates on which any dividends shall be payable;
- (f) The date from which dividends on shares issued prior to the date for payment of the first dividend thereon shall be cumulative, if any;
- (g) The redemption price, terms of redemption, and the amount of and provisions regarding any sinking fund for the purchase or redemption thereof;
- (h) The liquidation preferences and the amounts payable on dissolution or liquidation;
- (i) The terms and conditions, if any, under which shares of the series may be converted; and
- (j) Any other terms or provisions which the Board of Directors is by law authorized to fix or alter.

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

(3) Provisions applicable to Common and Preferred Stock. No holder of shares of stock of the corporation of any class shall be entitled, as a matter of right, to purchase or subscribe for any shares of stock of the corporation, of any class, whether now or

hereafter authorized. The Board of Directors shall have authority to fix the issue price of any and all shares of stock of the corporation of any class.

ARTICLE FOUR

The number of shares to be issued before the corporation shall commence business is: Twenty (20) shares of common stock, and the consideration to be paid therefor, and the capital with which the corporation will commence business, is: Two Thousand (\$2,000.00) Dollars. All of said shares have been first duly subscribed by the undersigned incorporators and have been paid up in lawful money of the United States.

ARTICLE FIVE

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

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

ARTICLE SIX

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

(B) Classification of Directors. At the annual meeting of the shareholders of the corporation in 1983, the directors of the corporation shall be divided into three classes: Class I, Class II and Class III. Membership in such classes shall be as nearly equal as possible and any increase or decrease in the number of directors shall be apportioned by the Board of Directors among the classes to maintain the number of directors as nearly as equal as possible. The initial Class I directors shall hold office until the annual meeting of shareholders of the corporation in 1984, the initial Class II directors shall hold office until the annual meeting of shareholders of the corporation in 1985, and the initial Class III directors shall hold office until the annual meeting of shareholders of the corporation in 1986 or, in each case, until their successors are elected and qualified and subject to prior death, resignation, retirement or removal from office. Beginning in 1984, at each annual meeting of shareholders the directors elected to succeed those whose terms then expire shall belong to the same class as the directors they succeed and shall hold office until the third succeeding annual meeting of shareholders

or until their successors are elected and qualified and subject to the prior death, resignation, retirement or removal from office of a director. No decrease in the number of directors constituting the Board of Directors shall reduce the term of any incumbent director.

Whenever the holders of any one or more classes or series of Preferred Stock of the corporation shall have the right to elect directors, the election, term of office, filling of vacancies and other terms of such directorships shall be governed by the provisions of these Article of Incorporation applicable to such Preferred Stock and such directors shall be divided into classes pursuant to this Article Six unless expressly provided or determined as provided elsewhere in these Articles of Incorporation.

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

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

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

ARTICLE SEVEN

The duration of the corporation is perpetual.

ARTICLE EIGHT

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

- (1) To perform bookkeeping services, including the preparation of books of account, balance sheets and profit and loss statements, to render tax services, including the preparation of tax returns, and to perform any and all other services directly or indirectly related thereto.
- (2) To purchase, lease or otherwise acquire, hold, own, improve, develop, sell, mortgage, pledge and otherwise deal in and with real and personal property of every kind and description in the United States of America, and in any territory, colony, dependency or district thereof, and in any foreign country or countries to the extent that the same may be lawfully permissible.

- (3) To buy, sell, utilize, lease, rent, import, export, manufacture, produce, design, prepare, assemble, fabricate, distribute and otherwise deal in, either at wholesale or retail, or both, either as principal, agent or on commission, all commodities, goods, wares, merchandise, machinery, tools, devices, apparatus, equipment and all other personal property, whether tangible or intangible, of every kind and description.
- (4) To buy, purchase, manufacture, assemble, distribute, lease (either as lessor or lessee), acquire, sell or in any manner dispose of, import, export, use, operate, rent, hire, mortgage, furnish, grant the use of, repair and generally deal in all kinds of construction, building and engineering equipment, including, but not limited to, bulldozers, castings, cranes, compressors, concrete mixers, drag lines, dump wagons, earth moving machinery and equipment, plows, pumps, road machines, road rollers, scrapes, shovels, tractors, trucks and automobile equipment, and in general all kinds of machinery, appliances, devices, implements, tools, fixtures, instruments, supplies, materials, and property of every kind and description, usable or adaptable for use by contractors and civil engineers.
- (5) To apply for, obtain, purchase, lease, take licenses in respect of or otherwise acquire, and to hold, own, use, operate, enjoy, turn to account, grant licenses in respect of, manufacture under, introduce, sell, assign, mortgage, pledge or otherwise dispose of:
 - a. Any and all inventions, devices and processes and any improvements and modifications thereof;
 - b. Any and all letters patent of the United States or of any other country, state or locality, and all rights connected therewith or appertaining thereto;
 - c. Any and all copyrights granted by the United States or any other country, state or locality as aforesaid;
 - d. Any and all trade-marks, trade names, trade symbols and other indications of origin and ownership granted by or recognized under the laws of the United States or of any other country, state or locality as aforesaid; and to conduct and carry on its business in any or all of its various branches under any trade name or trade names.

(6) To engage in, carry on and conduct research, experiments, investigations, analyses, studies and laboratory work, for the purpose of discovering new products or to improve products, articles and things and to acquire, own, operate, maintain and dispose of, whenever the corporation deems such action desirable, laboratories and similar

facilities, plants and any and all other establishments, and to procure, own and hold all necessary equipment in respect thereof, for the purposes aforesaid.

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

(8) To purchase and acquire, as a going concern or otherwise, and to carry on, maintain and operate all or any part of the property or business of any corporation, firm, association, entity, syndicate, or person whatsoever, deemed to be of benefit to the corporation, or of use in any manner in connection with any of its objects or purposes; and to acquire, own, hold and use and dispose of, upon such terms as may seem advisable to the corporation, any and all property, real, personal or mixed, and any interest therein deemed necessary, useful or of benefit to the corporation in any manner in connection with any of its objects or purposes.

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

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

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

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

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

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

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

ARTICLE NINE

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

ARTICLE TEN

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

ARTICLE ELEVEN

Any contract, transaction or act of the corporation or of the directors, which shall be ratified by a majority of a quorum of the shareholders having voting power at any annual meeting, or at any special meeting called for such purpose, shall, except as otherwise specifically provided by law or by the Articles of Incorporation, be as valid and as binding as though ratified by every shareholder of the corporation; provided, however, that any failure of the shareholders to approve or ratify such contract, transaction or act, when and if submitted, shall not of itself be deemed in any way to render the same invalid, nor deprive the directors of their right to proceed with such contract, transaction or act.

ARTICLE TWELVE

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

ARTICLE THIRTEEN

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

ARTICLE FOURTEEN

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

ARTICLE FIFTEEN

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

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

For purposes of this Article Fifteen:

1. The term "Business Transaction" shall mean: (a) any merger or consolidation of the corporation or any subsidiary of the corporation; (b) any sale, lease, exchange, mortgage, pledge, transfer or other disposition (in one transaction or a series of transactions) of all or a Substantial Part (as hereinafter defined) of the assets of the corporation or any subsidiary; (c) the issuance, sale, exchange, transfer or other disposition by the corporation or any subsidiary of any securities of the corporation or any subsidiary; (d) any reclassification of securities (including any reverse stock split) or recapitalization of the corporation or any other transaction which has the effect, directly or indirectly, of increasing the voting power of a Related Person; (e) any liquidation, spinoff, split-up or dissolution of the corporation; and (f) any agreement, contract or other arrangement providing for any of the transactions described in this definition of Business Transaction.
2. The term "Related Person" shall mean and include any individual, corporation, partnership or other person or entity, other than the corporation or any wholly-owned subsidiary thereof, which, together with its "Affiliates" and "Associates" (as defined on June 1, 1983 in Rule 12b-2 under the Securities Exchange Act of 1934 (the "Exchange Act"), "Beneficially Owns" (as defined on June 1, 1983, in Rule 13d-3 under the Exchange Act) in the aggregate 15 percent or more of the outstanding shares of the corporation entitled to vote in an election of directors at the time a resolution approving the Business Transaction is adopted by a two-thirds vote of the corporation's Board of Directors or on the record date for the determination of shareholders entitled to notice of and to vote on the Business Transaction, and any Affiliate or Associate of any such individual, corporation, partnership or other person or entity.
3. The term "Continuing Director" shall mean any member of the Board of Directors of the corporation who was either a member of the Board of Directors prior to the time that the Related Person became a Related Person or who subsequently became a director of the

corporation and whose election, or nomination for election by the corporation's shareholders, was approved by a vote of a majority of the Continuing Directors.

4. The term "Highest Purchase Price" shall mean the highest amount of consideration paid by such Related Person for a share of the corporation's Common Stock within one year prior to the date such person became a Related Person or in the transaction that resulted in such Related Person becoming a Related Person, provided that the Highest Purchase Price shall be appropriately adjusted for stock splits, stock dividends and like distributions.
5. The term "Substantial Part" shall mean more than 20% of the fair market value of the total assets of the entity in question, as of the end of its most recent fiscal year ending prior to the time the determination is made.

ARTICLE SIXTEEN

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

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

/s/ R. A. Bloch

R. A. BLOCH

/s/ Henry W. Bloch

HENRY W. BLOCH

/s/ L. E. Bloch, Jr.

L. E. BLOCH, JR.

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

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

H & R BLOCK, INC.

By /s/ Henry W. Bloch

Henry W. Bloch, President

By /s/ Richard A. Bloch

Richard A. Bloch, Secretary

(CORPORATE SEAL)

STATE OF MISSOURI)
)SS
COUNTY OF JACKSON)

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

/s/ Corine Craig

Notary Public

Corine Craig
My commission expires Dec. 12, 1978

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT ("Agreement") is entered into as of September 15, 2004, by and between HRB MANAGEMENT, INC., a Missouri Corporation (the "Company"), and Marc West ("Executive").

ARTICLE ONE

EMPLOYMENT

1.01 - Agreement as to Employment. Effective September 15, 2004 (the "Employment Date"), the Company hereby employs Executive to serve in the capacity set forth in Section 1.02, and Executive hereby accepts such employment by the Company, subject to the terms of this Agreement. The Company reserves the right, in its sole discretion, to change the title of Executive at any time.

1.02 - Duties.

(a) Executive is employed by the Company to serve as its Senior Vice President, Chief Information Officer of H&R BLOCK, INC., a Missouri corporation ("Block") and the indirect parent corporation of HRB, subject to the authority and direction of the Board of Directors of Block and the President and Chief Executive Officer of Block. Subject to the foregoing, Executive will have such authority and responsibility for the position of Chief Information Officer. The Company reserves the right to modify, delete, add, or otherwise change Executive's job responsibilities and job description, in its sole discretion, at any time. Executive will perform such other duties, which may be beyond the scope of the job description, as are assigned to Executive from time to time.

(b) So long as Executive is employed under this Agreement, Executive agrees to devote Executive's full business time and efforts exclusively on behalf of the Company and to competently and diligently discharge Executive's duties hereunder. Executive will not be prohibited from engaging in such personal, charitable, or other nonemployment activities that do not interfere with Executive's full-time employment hereunder and that do not violate the other provisions of this Agreement or the H&R Block, Inc. Code of Business Ethics & Conduct, which Executive acknowledges having read and understood. Executive will comply fully with all reasonable policies of the Company as are from time to time in effect and applicable to Executive's position. Executive understands that the business of Block, the Company, and/or any other direct or indirect subsidiary of Block (each such other subsidiary an "Affiliate") may be subject to governmental regulation, some of which may require Executive to submit to background investigation as a condition of Block, the Company, and/or Affiliates' participation in certain activities subject to such regulation. If Executive, Block, the Company, or Affiliates are unable to

participate, in whole or in part, in any such activity as the result of any action or inaction on the part of Executive, then this Agreement and Executive's employment hereunder may be terminated by the Company without notice.

1.03 - Compensation.

(a) Signing Bonus. The Company shall pay to Executive a \$25,000 bonus (less applicable taxes) within 30 days after the Employment Date. The Signing Bonus is subject to the condition that same is to be repaid in the event Executive terminates employment within twelve (12) months of the Employment Date.

(b) Base Salary. The Company will pay to Executive a gross salary at an annual rate of \$275,000 ("Base Salary"), payable semimonthly or at any other pay periods as the Company may use for its other executive-level employees. The Base Salary will be reviewed for adjustment no less often than annually during the term of Executive's employment hereunder and, if adjusted, such adjusted amount will become the "Base Salary" for purposes of this Agreement.

(c) Short-Term Incentive Compensation. Executive shall participate in the HRB Management, Inc. short-term incentive program that is based on the H&R Block Short-Term Incentive Plan (the "Program") as applicable to executives of the Company for its fiscal year 2005. Under such Program, Executive shall have an aggregate target incentive award equal to \$137,500 (50% of base salary), and an opportunity to earn 0% to 200% of such target bonus. The payment of the actual award under such Program shall be based upon such performance criteria which shall be determined by the Compensation Committee of Block. Under such Program for fiscal year 2005 only, Executive's actual incentive compensation shall be prorated based upon Executive's actual gross wages for the fiscal year, provided that Executive must remain employed through April 30, 2005 to receive any payments under the Program. Such incentive compensation shall be paid to Executive following the completion of fiscal year 2005 when the same is paid to other senior executives of the Company.

(d) Stock Options. As authorized under the H&R Block 2003 Long-Term Executive Compensation Plan, as amended (the "2003 Plan"), Executive shall be granted on the Employment Date a stock option under the 2003 Plan to purchase 30,000 shares of Block's common stock at an option price per share equal to its closing price on the New York Stock Exchange on the date of grant, such option to expire on the tenth anniversary of the date of grant; to vest and become exercisable as to one-third (10,000) of the shares covered thereby on the first anniversary of the date of grant, as to an additional one-third (10,000) of such shares on the second anniversary of the date of grant, and as to the remaining one-third (10,000) of the share on the third anniversary of the date of grant; to be an incentive stock option for the maximum number of shares permitted by Internal Revenue Code Section 422 and the regulations promulgated thereunder; and to otherwise be a nonqualified stock option. Any non-vested portion of stock options awarded pursuant to this Section 1.03(d) shall vest upon a "Change of Control" (as such term is defined in the Stock Option Agreement) pursuant to the terms of the Stock Option Agreement.

(e) Restricted Stock. Executive shall be awarded promptly after the Employment date, 9,000 Restricted Shares of Block's common stock under the 2003 Plan. One-third of the 9,000 shares shall vest (i.e., the restrictions on such shares shall terminate), respectively, on each of the first three anniversaries following such employment commencement date (in increments of 3,000 whole shares). Prior to the time such Restricted Shares are so vested, (i) such Restricted Shares shall be nontransferable, and (ii) Executive shall be entitled to receive any cash dividends payable with respect to unvested Restricted Shares and vote such unvested Restricted Shares at any meeting of shareholders of Block.

1.04 - Relocation Benefits.

(a) The Company will reimburse Executive for reasonable packing, shipping, transportation costs and other expenses incurred by Executive in relocating Executive, Executive's family and personal property to the Greater Kansas City Area, in accordance with the H&R Block Executive Relocation Program.

(b) To the extent that Executive incurs taxable income related to any relocation benefits paid pursuant to this Agreement, the Company will pay to Executive such additional amount as is necessary to "gross up" such benefits and cover the anticipated income tax liability resulting from such taxable income.

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

1.06 - Fringe Benefits. During the term of Executive's employment hereunder, and subject to the discretionary authority given to the applicable benefit plan administrators, the Company will make available to Executive such insurance, sick leave, deferred compensation, short-term incentive compensation, bonuses, stock options, retirement, vacation, and other like benefits as are approved and provided from time to time to the other executive-level employees of the Company or Affiliates.

1.07 - Termination of Employment.

(a) Without Notice. The Company may, at any time, in its sole discretion, terminate this Agreement and the employment of Executive without notice in the event of:

(i) Executive's misconduct that interferes with or prejudices the proper conduct of the business of Block, the Company or any Affiliate or which may reasonably result in harm to the reputation of Block, the Company and/or any Affiliate; or

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

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

(iv) Executive's violation of Article Two or Three of this Agreement; or

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

(vi) Executive's failure to discharge Executive's duties; or

(vii) Executive's suspension by the Internal Revenue Service from participation in the Electronic Filing Program; or

(viii) The inability of Executive, Block, the Company, and/or an Affiliate to participate, in whole or in part, in any activity subject to governmental regulation as the result of any action or inaction on the part of Executive, as described in Section 1.02(b); or

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

(b) With Notice. Either party may terminate this Agreement for any reason, or no reason, by providing not less than 45 days' prior written notice of such termination to the other party, and, if such notice is properly given, this Agreement and Executive's employment hereunder will terminate as of the close of business on the 45th day after such notice is deemed to have been given or such later date as is specified in such notice.

(c) Termination Due to a Change of Control.

(i) If Executive terminates Executive's employment under this Agreement during the 180-day period following the date of the occurrence of a "Change of Control" of Block then, upon any such termination of Executive's employment and conditioned on Executive's execution of an agreement with the Company under which Executive releases all known and potential claims against Block, the Company, and Affiliates, the Company will provide Executive with Executive's election (the "Change of Control Election") of the same level of severance compensation and benefits as would be provided under the H&R

Block Severance Plan (the "Severance Plan") as the Severance Plan exists either (A) on the date of this Agreement or (B) on Executive's last day of active employment by the Company or any Affiliate (the "Last Day of Employment"), as if Executive had incurred a "Qualifying Termination" (as such term is defined in the Severance Plan). The Severance Plan as it exists on the date of this Agreement is attached hereto as Exhibit A. Executive must notify the Company in writing within 5 business days after Executive's Last Day of Employment of Executive's Change of Control Election. Severance compensation and benefits provided under this Section 1.07(c) will terminate immediately if Executive violates Sections 3.02, 3.03, or 3.05 of this Agreement or becomes reemployed with the Company or an Affiliate.

(ii) For the purpose of this subsection, a "Change of Control" means:

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

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

(C) the completion of a reorganization, merger or consolidation approved by the shareholders of Block, in each case, with respect to which all or

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

(d) Severance. Executive will receive severance compensation and benefits as would be provided under the Severance Plan, as the same may be amended from time to time, if Executive incurs a "Qualifying Termination," as such term is defined in the Severance Plan (and without regard to whether the termination is with or without notice under this Agreement), and executes an agreement with the Company under which Executive releases all known and potential claims against Block, the Company, and Affiliates. Such compensation and benefits will, upon Executive's election (the "Severance Election") be at the same level of severance compensation and benefits as would be provided under the Severance Plan as such plan exists either (A) on the date of this Agreement or (B) Executive's Last Day of Employment; provided, however, (1) the "Severance Period" (as such term is defined in the Severance Plan) will be 12 months, notwithstanding any provision in the Severance Plan to the contrary, and (2) Executive will be credited with not less than 12 "Years of Service" (as such term is defined in the Severance Plan) for the purpose of determining severance compensation under Section 4(a) of the Severance Plan as it exists on the date of this Agreement or the comparable section of the Severance Plan as it exists on Executive's Last Day of Employment, notwithstanding any provision in the Severance Plan to the contrary, and (3) all restrictions on any Restricted Shares awarded to Executive that would have vested in accordance with their terms by reason of lapse of time within 18 months after the effective date of the termination of employment (absent such termination of employment) shall terminate (and such Restricted Shares shall be fully vested) and any Restricted Shares that would not have vested in accordance with their terms by reason of lapse of time within 18 months after the effective date of termination of employment shall be forfeited, notwithstanding any provision of the Severance Agreement to the contrary. The Severance Plan as it exists on the date of this Agreement is attached hereto as Exhibit A. Executive must notify the Company in writing within 5 business days after Executive's Last Day of Employment of Executive's Severance Election. Severance compensation and benefits provided under this Section 1.07(d) will terminate immediately if Executive violates Sections 3.02, 3.03, or 3.05 of this Agreement or becomes reemployed with the Company or an Affiliate.

(e) Further Obligations. Upon termination of Executive's employment under this Agreement, neither the Company, Block, nor any Affiliate will have any further obligations under this Agreement and no further payments of Base Salary or other compensation or benefits will be payable by the Company, Block, or any Affiliate to Executive, except (i) as set forth in this Section 1.07, (ii) as required by the express terms of any written benefit plans or written arrangements

maintained by the Company or Block and applicable to Executive at the time of such termination of Executive's employment, or (iii) as may be required by law. Any termination of this Agreement, however, will not be effective as to Sections 3.02, 3.03 and 3.05, or any other portions or provisions of this Agreement which, by their express terms, require performance by either party following termination of this Agreement.

ARTICLE TWO

CONFIDENTIALITY

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

2.02 - Proprietary Information is Property of Block.

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

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

ARTICLE THREE

NON-HIRING; NON-SOLICITATION; NO CONFLICTS; NON-COMPETITION

3.01 - General. The parties hereto acknowledge that, during the course of Executive's employment by the Company, Executive will have access to information valuable to the Company and Block concerning the employees of Block and its subsidiaries ("Block Employees") and, in addition to Executive's access to such information, Executive may, during (and in the course of) Executive's employment by the Company, develop relationships with such Block Employees whereby information valuable to Block and its subsidiaries concerning the Block Employees was acquired by Executive. Such information includes, without limitation: the identity, skills, and performance levels of the Block Employees, as well as compensation and benefits paid by Block to such Block Employees. Executive agrees and understands that it is important to protect Block, the Company, Affiliates and their employees, agents, directors, and clients from the unauthorized use and appropriation of Block Employee information, Proprietary Information, and trade secret business information developed, held, or used by Block, the Company, or Affiliates, and to protect Block, the Company, and Affiliates and their employees, agents, directors, and customers Executive agrees to the covenants described in this Article III.

3.02 - Non-Hiring. During the period of Executive's employment hereunder, and for a period of 1 year after Executive's Last Day of Employment, Executive may not directly or indirectly recruit, solicit, or hire any Block Employee or otherwise induce any such Block Employee to leave the employment of Block (or the applicable employer-subsidiary of Block) to become an employee of or otherwise be associated with any other party or with Executive or any company or business with which Executive is or may become associated. The running of the 1-year period will be suspended during any period of violation and/or any period of time required to enforce this covenant by litigation or threat of litigation.

3.03 - Non-Solicitation. During the period of Executive's employment hereunder and during the time Executive is receiving payments hereunder, and for 2 years after the later of Executive's Last Day of Employment or cessation of such payments, Executive may not directly or indirectly solicit or enter into any arrangement with any person or entity which is, at the time of the solicitation, a significant customer of the Company or an Affiliate for the purpose of engaging

in any business transaction of the nature performed by the Company or such Affiliate, or contemplated to be performed by the Company or such Affiliate, for such customer, provided that this Section 3.03 will only apply to customers for whom Executive personally provided services while employed by the Company or an Affiliate or customers about whom or which Executive acquired material information while employed by the Company or an Affiliate. The running of the 2-year period will be suspended during any period of violation and/or any period of time required to enforce this covenant by litigation or threat of litigation.

3.04 - No Conflicts. Executive represents in good faith that, to the best of Executive's knowledge, the performance by Executive of all the terms of this Agreement will not breach any agreement to which Executive is or was a party and which requires Executive to keep any information in confidence or in trust. Executive has not brought and will not bring to the Company or Block nor will Executive use in the performance of employment responsibilities at the Company any proprietary materials or documents of a former employer that are not generally available to the public, unless Executive has obtained express written authorization from such former employer for their possession and use. Executive has not and will not breach any obligation of confidentiality that Executive may have to former employers and Executive will fulfill all such obligations during Executive's employment with the Company.

3.05 - Non-Competition. During the period of Executive's employment hereunder and during the time Executive is receiving payments hereunder, and for 2 years after the later of Executive's Last Day of Employment or cessation of such payments, Executive may not engage in, or own or control any interest in (except as a passive investor in less than one percent of the outstanding securities of publicly held companies), or act as an officer, director or employee of, or consultant, advisor or lender to, any firm, corporation, partnership, limited liability company, institution, business, government agency, or entity that engages in any line of business that is competitive with any Line of Business of Block (as defined below), provided that this Section 3.05 will not apply to Executive if Executive's primary place of employment by the Company or an Affiliate as of the Last Day of Employment is in either the State of California or the State of North Dakota. "Line of Business of Block" means any line of business (including lines of business under evaluation or development) of the Company, as well as any one or more lines of business (including lines of business under evaluation or development) of any Affiliate by which Executive was employed during the two-year period preceding the Last Day of Employment, provided that, "Line of Business of Block" will in all events include, but not be limited to, the income tax return preparation business, and provided further that if Executive's employment was, as of the Last Day of Employment or during the 2-year period immediately prior to the Last Day of Employment, with HRB Management, Inc. or any successor entity thereto, "Line of Business of Block" means any line of business (including lines of business under evaluation or development) of Block and all of its subsidiaries. The running of the 2-year period will be suspended during any period of violation and/or any period of time required to enforce this covenant by litigation or threat of litigation.

3.06 - Reasonableness of Restrictions. Executive and the Company acknowledge

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

ARTICLE FOUR

MISCELLANEOUS

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

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

4.03 - Specific Performance by Executive. The parties hereto acknowledge that money damages alone will not adequately compensate the Company or Block or Executive for breach of any of the covenants and agreements herein and, therefore, in the event of the breach or threatened breach of any such covenant or agreement by either party, in addition to all other remedies available at law, in equity or otherwise, a wronged party will be entitled to injunctive relief compelling specific performance of (or other compliance with) the terms hereof.

4.04 - Successors and Assigns. This Agreement is binding upon Executive and the heirs, executors, assigns and administrators of Executive or Executive's estate and property and will inure to the benefit of the Company, Block and their successors and assigns. Executive may not assign or transfer to others the obligation to perform Executive's duties hereunder. The Company may assign this Agreement to an Affiliate with the consent of Executive, in which case, after such assignment, the "Company" means the Affiliate to which this Agreement has been assigned.

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

actually paid by the Company. This Section 4.05 does not affect the Company's obligation to "gross up" any relocation benefits paid to Executive pursuant to Subsection 1.04(b).

4.06 - Indemnification. To the fullest extent permitted by law and Block's Bylaws, the Company hereby indemnifies during and after the period of Executive's employment hereunder Executive from and against all loss, costs, damages, and expenses including, without limitation, legal expenses of counsel selected by the Company to represent the interests of Executive (which expenses the Company will, to the extent so permitted, advance to executive as the same are incurred) arising out of or in connection with the fact that Executive is or was a director, officer, employee, or agent of the Company or Block or serving in such capacity for another corporation at the request of the Company or Block. Notwithstanding the foregoing, the indemnification provided in this Section 4.06 will not apply to any loss, costs, damages, and expenses arising out of or relating in any way to any employment of Executive by any former employer or the termination of any such employment.

4.07 - Right to Offset. To the extent not prohibited by applicable law and in addition to any other remedy, the Company has the right but not the obligation to offset any amount that Executive owes the Company under this Agreement against any amounts due Executive by Block, the Company, or Affiliates.

4.08 - Waiver of Jury Trial. Both parties to this Agreement, and Block, as a third-party beneficiary pursuant to Section 4.01 of this Agreement, waive any and all right to any trial by jury in any action or proceeding directly or indirectly related to this Agreement and Executive's employment hereunder.

4.09 - Notices. All notices required or desired to be given hereunder must be in writing and will be deemed served and delivered if delivered in person or mailed, postage prepaid to Executive at: [Executive's Address]; and to the Company at: 4400 Main Street, Kansas City, Missouri 64111, Attn: President, with a copy to H&R Block, Inc., 4400 Main Street, Kansas City, Missouri 64111, Attn: Corporate Secretary; or to such other address and/or person designated by either party in writing to the other party. Any notice given by mail will be deemed given as of the date it is so mailed and postmarked or received by a nationally recognized overnight courier for delivery.

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

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

EXECUTIVE:

Dated: August 16, 2004

/s/ Marc West

Marc West

Accepted and Agreed:

HRB Management, Inc.
a Missouri Corporation

By: /s/ Mark A. Ernst

Mark A. Ernst

President and Chief Executive Officer

Dated: August 17, 2004

[INSERT H&R BLOCK SEVERANCE PLAN]

A-1

STANDARD FORM OF AGREEMENT BETWEEN OWNER AND
DESIGN/BUILDER

THIS DOCUMENT HAS IMPORTANT LEGAL CONSEQUENCES; CONSULTATION WITH AN ATTORNEY IS ENCOURAGED WITH RESPECT TO ITS USE, COMPLETION OR MODIFICATION. AUTHENTICATION OF THIS ELECTRONICALLY DRAFTED AIA DOCUMENT MAY BE MADE BY USING AIA DOCUMENT D401.

This document comprises two separate Agreements: Part 1 Agreement and Part 2 Agreement. To the extent referenced in these Agreements, subordinate parallel agreements to A191 consist of AIA Document A491, Standard Form of Agreements Between Design/Builder and Contractor, and AIA Document B901, Standard Form of Agreements Between Design/Builder and Architect.

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PART 2 AGREEMENT

1996 EDITION

AGREEMENT

made as of the 5th day of May in the year of 2003
(In words, indicate day, month and year.)

BETWEEN the Owner:
(Name and address)
H&R Block Tax Services, Inc.
Kansas City, MO

and the Design/Builder:

(Name and address)
J.E. Dunn Construction Company
929 Holmes
Kansas City, MO 64106

For the following Project:
(Include Project name, location and a summary description.)
New World Headquarters
Kansas City, MO

The architectural services described in Article 3 will be provided by the following person or entity who is lawfully licensed to practice architecture:

| (Name and address) | (Registration Number) | (Relationship to Design/Builder) |
|---|-----------------------|----------------------------------|
| CDFM2 Architecture, Inc. 1015 Central Kansas City, MO 64105 | | |

Normal structural, mechanical and electrical engineering services will be provided contractually through the Architect except as indicated below:

| (Name, address and discipline) | (Registration Number) | (Relationship to Design/Builder) |
|--------------------------------|-----------------------|----------------------------------|
|--------------------------------|-----------------------|----------------------------------|

The Owner and the Design/Builder agree as set forth below.

TERMS AND CONDITIONS - PART 2 AGREEMENT

ARTICLE 1
GENERAL PROVISIONS

1.1 BASIC DEFINITIONS

1.1.1 The Contract Documents consist of

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this Part 2 Agreement, the Design/Builder's Proposal and written addenda to the Proposal identified in Article 14, the Construction Documents approved by the Owner in accordance with Subparagraph 3.2.3 and Modifications issued after execution of this Part 2 Agreement. A Modification is a Change Order or a written amendment to this Part 2 Agreement signed by both parties, or a Construction Change Directive issued by the Owner in accordance with Paragraph 8.3.

1.1.2 The term "Work" means the construction and services provided by the Design/Builder to fulfill the Design/Builder's obligations.

1.2 EXECUTION, CORRELATION AND INTENT

1.2.1 It is the intent of the Owner and Design/Builder that the Contract Documents include all items necessary for proper execution and completion of the Work. The Contract Documents are complementary, and what is required by one shall be as binding as if required by all; performance by the Design/Builder shall be required only to the extent consistent with and reasonably inferable from the Contract Documents as being necessary to produce the intended results. Words that have well-known technical or construction industry meanings are used in the Contract Documents in accordance with such recognized meanings.

1.2.2 If the Design/Builder believes or is advised by the Architect or by another design professional retained to provide services on the Project that implementation of any instruction received from the Owner would cause a violation of any applicable law, the Design/Builder shall notify the Owner in writing. Neither the Design/Builder nor the Architect shall be obligated to perform any act which either believes will violate any applicable law.

1.2.3 The parties agree there are no third-party beneficiaries to this Agreement other than those contractors, subcontractors, vendors and others expressly contemplated by the terms of this Agreement.

1.3 OWNERSHIP AND USE OF DOCUMENTS

1.3.1 Drawings, specifications, and other documents and electronic data furnished by the Design/Builder are instruments of service. The Design/Builder's Architect and other providers of professional services shall retain all common law, statutory and other reserved rights, including copyright in those instruments of service furnished by them. Drawings, specifications, and other documents and electronic data are furnished for use solely with respect to this Part 2 Agreement. The Owner shall be permitted to retain copies, including reproducible copies, of the drawings, specifications, and other documents and electronic data furnished by the Design/Builder for information and reference in connection with the Project except as provided in Subparagraphs 1.3.2 and 1.3.3.

1.3.2 Drawings, specifications, and other documents and electronic data furnished by the Design/Builder shall not be used by the Owner or others on other projects, for additions to this Project or for completion of this Project by others, except by agreement in writing and with appropriate compensation to the Design/Builder, unless the Design/Builder is adjudged to be in default under this Part 2 Agreement or under any other subsequently executed agreement.

1.3.3 If the Design/Builder defaults in the Design/Builder's obligations to the Owner, the Architect shall grant a license to the Owner to use the drawings, specifications, and other documents and electronic data furnished by the Architect to the Design/Builder for the completion of the Project, conditioned upon the Owner's execution of an agreement to cure the Design/Builder's default in payment to the Architect for services previously performed and to indemnify the Architect with regard to claims arising from such reuse without the Architect's professional involvement.

1.3.4 Submission or distribution of the Design/Builder's documents to meet official regulatory requirements or for similar purposes in connection with the Project is not to be construed as publication in derogation of the rights reserved in Subparagraph 1.3.1.

1.3.5 Except as required by law or judicial or administrative proceedings, including proceedings between the parties with respect to the transactions contemplated hereby, and then only to the extent specifically required in any such proceeding, each of the parties agrees not to disclose any confidential or proprietary information ("Confidential Information") obtained from and other party in connection with the transactions contemplated hereby, to any individual or entity (other than its directors, officers, employees, agents, and representatives with a need to know such Confidential Information in order to consummate the transactions contemplated hereby).

ARTICLE 2 OWNER

2.1 The Owner shall designate a representative authorized to act on the Owner's behalf with respect to the Project. The Owner or such authorized representative shall examine documents submitted by the Design/Builder and shall render decisions in a timely manner and in accordance with the schedule accepted by the Owner. The Owner may obtain independent review of the Contract Documents by a separate architect, engineer, contractor or cost estimator under contract, to or employed by the Owner. Such independent review shall be undertaken at the Owner's expense in a timely manner and shall not delay the orderly progress of the Work.

2.2 The Owner may appoint an on-site project representative to observe the Work and to have such other responsibilities as the Owner and Design/Builder agree in writing.

2.3 The Owner shall cooperate with the Design/Builder in securing building and other permits, licenses and inspections. The Owner shall not be required to pay the fees for such permits, licenses and inspections unless the cost of such fees

is excluded from the Design/Builder's Proposal.

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2.4 The Owner shall furnish services of land surveyors, geotechnical engineers and other consultants for subsoil, air and water conditions when such services are deemed necessary by the Design/Builder to properly carry out the design services required by this Part 2 Agreement.

2.5 The Owner shall disclose, to the extent known to the Owner, the results and reports of prior tests, inspections or investigations conducted for the Project involving: structural or mechanical systems; chemical, air and water pollution; hazardous materials; or other environmental and subsurface conditions. The Owner shall disclose all information known to the Owner regarding the presence of pollutants at the Project's site.

2.6 The Owner shall furnish all legal, accounting and insurance counseling services as may be necessary at any time for the Project, including such auditing services as the Owner may require to verify the Design/Builder's Applications for Payment.

2.7 Those services, information, surveys and reports required by Paragraphs 2.4 through 2.6 which are within the Owner's control shall be furnished at the Owner's expense, and the Design/Builder shall be entitled to rely upon the accuracy and completeness thereof, except to the extent the Owner advises the Design/Builder to the contrary in writing.

2.8 If the Owner requires the Design/Builder to maintain any special insurance coverage, policy, amendment, or rider, the Owner shall pay the additional cost thereof, except as otherwise stipulated in this Part 2 Agreement.

2.9 If the Owner observes or otherwise becomes aware of a fault or defect in the Work or nonconformity with the Design/Builder's Proposal or the Construction Documents, the Owner shall give prompt written notice thereof to the Design/Builder.

2.10 The Owner shall, at the request of the Design/Builder, prior to execution of this Part 2 Agreement and promptly upon request thereafter, furnish to the Design/Builder reasonable evidence that financial arrangements have been made to fulfill the Owner's obligations under the Contract.

2.11 The Owner shall communicate with persons or entities employed or retained by the Design/Builder through the Design/Builder, unless otherwise directed by the Design/Builder.

ARTICLE 3 DESIGN/BUILD

3.1 SERVICES AND RESPONSIBILITIES

3.1.1 Design services required by this Part 2 Agreement shall be performed by qualified architects and other design professionals. The contractual obligations of such professional persons or entities are undertaken and performed in the interest of the Design/Builder.

3.1.2 The agreements between the Design/Builder and the persons or entities identified in this Part 2 Agreement, and any subsequent modifications, shall be in writing. These agreements, including financial arrangements with respect to this Project, shall be promptly and fully disclosed to the Owner upon request.

3.1.3 The Design/Builder shall be responsible to the Owner for acts and omissions of the Design/Builder's employees, subcontractors and their agents and employees, and other persons, including the Architect and other design professionals, performing any portion of the Design/Builder's obligations under this Part 2 Agreement.

3.2 BASIC SERVICES

3.2.1 The Design/Builder's Basic Services are described below and in Article 14.

3.2.2 The Design/Builder shall designate a representative authorized to act on the Design/Builder's behalf with respect to the Project.

3.2.3 The Design/Builder shall submit Construction Documents for review and approval by the Owner. Construction Documents may include drawings, specifications, and other documents and electronic data setting forth in detail the requirements for construction of the Work, and shall:

- .1 be consistent with the intent of the Design/Builder's Proposal;
- .2 provide information for the use of those in the building trades; and
- .3 include documents customarily required for regulatory agency approvals.

3.2.4 The Design/Builder, with the assistance of the Owner, shall file documents required to obtain necessary approvals of governmental authorities having jurisdiction over the Project.

3.2.5 Unless otherwise provided in the Contract Documents, the Design/Builder shall provide or cause to be provided and shall pay for design services, labor, materials, equipment, tools, construction equipment and machinery, water, heat, utilities, transportation and other facilities and services necessary for proper execution and completion of the Work, whether temporary or permanent and whether or not incorporated or to be incorporated in the Work.

3.2.6 The Design/Builder shall be responsible for all construction means, methods, techniques, sequences and procedures, and for coordinating all portions of the Work under this Part 2 Agreement.

3.2.7 The Design/Builder shall keep the Owner informed of the progress and

quality of the Work.

3.2.8 The Design/Builder shall be responsible for correcting Work which does not conform to the Contract Documents.

3.2.9 The Design/Builder warrants to the Owner that

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materials and equipment furnished under the Contract will be of good quality and new unless otherwise required or permitted by the Contract Documents, that the construction will be free from faults and defects, and that the construction will conform with the requirements of the Contract Documents. Construction not conforming to these requirements, including substitutions not properly approved by the Owner, shall be corrected in accordance with Article 9.

3.2.10 The Design/Builder shall pay all sales, consumer, use and similar taxes which had been legally enacted at the time the Design/Builder's Proposal was first submitted to the Owner, except as otherwise provided in this Agreement and shall secure and pay for building and other permits and governmental fees, licenses and inspections necessary for the proper execution and completion of the Work which are either customarily secured after execution of a contract for construction or are legally required at the time the Design/Builder's Proposal was first submitted to the Owner.

3.2.11 The Design/Builder shall comply with and give notices required by laws, ordinances, rules, regulations and lawful orders of public authorities relating to the Project.

3.2.12 The Design/Builder shall pay royalties and license fees for patented designs, processes or products. The Design/Builder shall defend suits or claims for infringement of patent rights and shall hold the Owner harmless from loss on account thereof, but shall not be responsible for such defense or loss when a particular design, process or product of a particular manufacturer is required by the Owner. However, if the Design/Builder has reason to believe the use of a required design, process or product is an infringement of a patent, the Design/Builder shall be responsible for such loss unless such information is promptly furnished to the Owner.

3.2.13 The Design/Builder shall keep the premises and surrounding area free from accumulation of waste materials or rubbish caused by operations under this Part 2 Agreement. At the completion of the Work, the Design/Builder shall remove from the site waste materials, rubbish, the Design/Builder's tools, construction equipment, machinery, and surplus materials.

3.2.14 The Design/Builder shall notify the Owner when the Design/Builder believes that the Work or an agreed upon portion thereof is substantially completed. If the Owner concurs, the Design/Builder shall issue a Certificate of Substantial Completion which shall establish the Date of Substantial Completion, shall state the responsibility of each party for security, maintenance, heat, utilities, damage to the Work and insurance, shall include a list of items to be completed or corrected and shall fix the time within which the Design/Builder shall complete items listed therein. Disputes between the Owner and Design/Builder regarding the Certificate of Substantial Completion shall be resolved in accordance with provisions of Article 10.

3.2.15 The Design/Builder shall maintain at the site for the Owner one record copy of the drawings, specifications, product data, samples, shop drawings, Change Orders and other modifications, in good order and regularly updated to record the completed construction. These shall be delivered to the Owner upon completion of construction and prior to final payment.

3.2.16 The J.E. Dunn Project Team will consist of Dan Euston, Executive Representative, Lynn Newkirk, On-Site Project Manager, and Rick Fortner, On-Site Construction Superintendent. In the event that H&R Block chooses to relocate to an existing building, then a different superintendent with specific tenant finish and renovation experience will be assigned. H&R Block will have the right to approve that re-assignment. H&R Block reserves the right to request replacement of any of the designated team members at its sole discretion, and compliance with such request shall not unreasonably be denied. J.E. Dunn will not be allowed to substitute any of the designated team members unless prior approval from H&R Block is obtained beforehand in writing.

3.3 ADDITIONAL SERVICES

3.3.1 The services described in this Paragraph 3.3 are not included in Basic Services unless so identified in Article 14, and they shall be paid for by the Owner as provided in this Part 2 Agreement, in addition to the compensation for Basic Services. The services described in this Paragraph 3.3 shall be provided only if authorized or confirmed in writing by the Owner.

3.3.2 Making revisions in drawings, specifications, and other documents or electronic data when such revisions are required by the enactment or revision of codes, laws or regulations subsequent to the preparation of such documents or electronic data.

3.3.3 Providing consultation concerning replacement of Work damaged by fire or other cause during construction, and furnishing services required in connection with the replacement of such Work.

3.3.4 Providing services in connection with a public hearing, arbitration proceeding or legal proceeding, except where the Design/Builder is a party thereto.

3.3.5 Providing coordination of construction performed by the Owner's own forces or separate contractors employed by the Owner, and coordination of services required in connection with construction performed and equipment supplied by the Owner.

3.3.6 Preparing a set of reproducible record documents or electronic data showing significant changes in the Work made during construction.

3.3.7

4.1 Unless otherwise indicated, the Owner and the

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Design/Builder shall perform their respective obligations as expeditiously as is consistent with reasonable skill and care and the orderly progress of the Project.

4.2 Time limits stated in the Contract Documents are of the essence. The Work to be performed under this Part 2 Agreement shall commence upon receipt of a notice to proceed unless otherwise agreed and, subject to authorized Modifications, Substantial Completion shall be achieved on or before the date established in Article 14.

4.3 Substantial Completion is the stage in the progress of the Work when the Work or designated portion thereof is sufficiently complete in accordance with the Contract Documents so the Owner can occupy or utilize the Work for its intended use.

4.4 Based on the Design/Builder's Proposal, a construction schedule shall be provided consistent with Paragraph 4.2 above.

4.5 If the Design/Builder is delayed at any time in the progress of the Work by an act or neglect of the Owner, Owner's employees, or separate contractors employed by the Owner, or by changes ordered in the Work, or by labor disputes, fire, unusual delay in deliveries, adverse weather conditions not reasonably anticipatable, unavoidable casualties or other causes beyond the Design/Builder's control, or by delay authorized by the Owner pending arbitration, or by other causes which the Owner and Design/Builder agree may justify delay, then the Contract Time shall be reasonably extended by Change Order.

ARTICLE 5 PAYMENTS

5.1 PROGRESS PAYMENTS

5.1.1 The Design/Builder shall deliver to the Owner itemized Applications for Payment in such detail as indicated in Article 14.

5.1.2 Owner shall make payment to the Design/Builder pursuant to Paragraph 13.4.

5.1.3 The Application for Payment shall constitute a representation by the Design/Builder to the Owner that the design and construction have progressed to the point indicated, the quality of the Work covered by the application is in accordance with the Contract Documents, and the Design/Builder is entitled to payment in the amount requested.

5.1.4 Upon receipt of payment from the Owner, the Design/Builder shall promptly pay the Architect, other design professionals and each contractor the amount to which each is entitled in accordance with the terms of their respective contracts.

5.1.5 The Owner shall have no obligation under this Part 2 Agreement to pay or to be responsible in any way for payment to the Architect, another design professional or a contractor performing portions of the Work.

5.1.6 Neither progress payment nor partial or entire use or occupancy of the Project by the Owner shall constitute an acceptance of Work not in accordance with the Contract Documents.

5.1.7 The Design/Builder warrants that title to all construction covered by an Application for Payment will pass to the Owner no later than the time of payment. The Design/Builder further warrants that upon submittal of an Application for Payment all construction for which payments have been received from the Owner shall be free and clear of liens, claims, security interests or encumbrances in favor of the Design/Builder or any other person or entity performing construction at the site or furnishing materials or equipment relating to the construction.

5.1.8 At the time of Substantial Completion, the Owner shall pay the Design/Builder the retainage, if any, less the reasonable cost to correct or complete incorrect or incomplete Work. Final payment of such withheld sum shall be made upon correction or completion of such Work.

5.2 FINAL PAYMENT

5.2.1 Neither final payment nor amounts retained, if any, shall become due until the Design/Builder submits to the Owner: (1) an affidavit that payrolls, bills for materials and equipment, and other indebtedness connected with the Work for which the Owner or Owner's property might be responsible or encumbered (less amounts withheld by the Owner) have been paid or otherwise satisfied; (2) a certificate evidencing that insurance required by the Contract Documents to remain in force after final payment is currently in effect and will not be canceled or allowed to expire until at least 30 days' prior written notice has been given to the Owner; (3) a written statement that the Design/Builder knows of no substantial reason that the insurance will not be renewable to cover the period required by the Contract Documents; (4) consent of surety, if any, to final payment; and (5) if required by the Owner, other data establishing payment or satisfaction of obligations, such as receipts, releases and waivers of liens, claims, security interests or encumbrances arising out of the Contract, to the extent and in such form as may be designated by the Owner. If a contractor or other person or entity entitled to assert a lien against the Owner's property refuses to furnish a release or waiver required by the Owner, the Design/Builder may furnish a bond satisfactory to the Owner to indemnify the Owner against such lien. If such lien remains unsatisfied after payments are made, the Design/Builder shall indemnify the Owner for all loss and cost, including reasonable attorneys' fees incurred as a result of such lien.

5.2.2 When the Work has been completed and the contract fully performed, the Design/Builder shall submit a final application for payment to the Owner, who

shall make final payment within 30 days of receipt.

5.2.3 The making of final payment shall constitute a waiver of claims by the Owner except those arising from:

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- .1 liens, claims, security interest or encumbrances arising out of the Contract and unsettled;
- .2 failure of the Work to comply with the requirements of the Contract Documents; or
- .3 terms of special warranties required by the Contract Documents.

5.2.4 Acceptance of final payment shall constitute a waiver of all claims by the Design/Builder except those previously made in writing and identified by the Design/Builder as unsettled at the time of final Application for Payment.

5.3 INTEREST PAYMENTS

5.3.1 Payments due the Design/Builder under this Part 2 Agreement which are not paid when due shall bear interest from the date due at the rate specified in Article 13, or in the absence of a specified rate, at the legal rate prevailing where the Project is located.

ARTICLE 6 PROTECTION OF PERSONS AND PROPERTY

6.1 The Design/Builder shall be responsible for initiating, maintaining and providing supervision of all safety precautions and programs in connection with the performance of this Part 2 Agreement.

6.2 The Design/Builder shall take reasonable precautions for the safety of, and shall provide reasonable protection to prevent damage, injury or loss to: (1) employees on the Work and other persons who may be affected thereby; (2) the Work and materials and equipment to be incorporated therein, whether in storage on or off the site, under care, custody, or control of the Design/Builder or the Design/Builder's contractors; and (3) other property at or adjacent thereto, such as trees, shrubs, lawns, walks, pavements, roadways, structures and utilities not designated for removal relocation or replacement in the course of construction.

6.3 The Design/Builder shall give notices and comply with applicable laws, ordinances, rules, regulations and lawful orders of public authorities bearing on the safety of persons or property or their protection from damage, injury or loss.

6.4 The Design/Builder shall promptly remedy damage and loss (other than damage or loss insured under property insurance provided or required by the Contract Documents) to property at the site caused by the Design/Builder, a contractor of the Design/Builder or anyone directly or indirectly employed by any of them, or by anyone for whose acts they may be liable.

ARTICLE 7 INSURANCE AND BONDS

7.1 DESIGN/BUILDER'S LIABILITY INSURANCE

7.1.1 The Design/Builder shall purchase from and maintain, in a company or companies lawfully authorized to do business in the jurisdiction in which the Project is located, such insurance as will protect the Design/Builder from claims set forth below which may arise out of or result from operations under this Part 2 Agreement by the Design/Builder or by a contractor of the Design/Builder, or by anyone directly or indirectly employed by any of them, or by anyone for whose acts any of them may be liable:

- .1 claims under workers' compensation, disability benefit and other similar employee benefit laws that are applicable to the Work to be performed;
- .2 claims for damages because of bodily injury, occupational sickness or disease, or death of the Design/Builder's employees;
- .3 claims for damages because of bodily injury, sickness or disease, or death of persons other than the Design/Builder's employees;
- .4 claims for damages covered by usual personal injury liability coverage which are sustained (1) by a person as a result of an offense directly or indirectly related to employment of such person by the Design/Builder or (2) by another person;
- .5 claims for damages, other than to the Work itself, because of injury to or destruction of tangible property, including loss of use resulting therefrom;
- .6 claims for damages because of bodily injury, death of a person or property damage arising out of ownership, maintenance or use of a motor vehicle; and
- .7 claims involving contractual liability insurance applicable to the Design/Builder's obligations under Paragraph 11.5.

7.1.2 The insurance required by Subparagraph 7.1.1 shall be written for not less than limits of liability specified in this Part 2 Agreement or required by law, whichever coverage is greater. Coverages, whether written on an occurrence or claims-made basis, shall be maintained without interruption from date of commencement of the Work until date of final payment and termination of any coverage required to be maintained after final payment.

7.1.3 Certificates of Insurance acceptable to the Owner shall be delivered to the Owner immediately after execution of this Part 2 Agreement. These Certificates and the insurance policies required by this Paragraph 7.1 shall contain a provision that coverages afforded under the policies will not be

canceled or allowed to expire until at least 30 days' prior written notice has been given to the Owner. If any of the foregoing insurance coverages are required to remain in force after final payment, an additional certificate evidencing continuation of such coverage shall be submitted with the application for final payment. Information concerning reduction of coverage shall be furnished by the Design/Builder with reasonable promptness in accordance with the Design/Builder's information and belief.

7.2 OWNER'S LIABILITY INSURANCE

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7.2.1 The Owner shall be responsible for purchasing and maintaining the Owner's usual liability insurance. Optionally, the Owner may purchase and maintain other insurance for self-protection against claims which may arise from operations under this Part 2 Agreement. The Design/Builder shall not be responsible for purchasing and maintaining this optional Owner's liability insurance unless specifically required by the Contract Documents.

7.3 PROPERTY INSURANCE

7.3.1 Unless otherwise provided under this Part 2 Agreement, the Owner shall purchase and maintain, in a company or companies authorized to do business in the jurisdiction in which the principal improvements are to be located, property insurance upon the Work to the full insurable value thereof on a replacement cost basis without optional deductibles. Such property insurance shall be maintained, unless otherwise provided in the Contract Documents or otherwise agreed in writing by all persons and entities who are beneficiaries of such insurance, until final payment has been made or until no person or entity other than the Owner has an insurable interest in the property required by this Paragraph 7.3 to be insured, whichever is earlier. This insurance shall include interests of the Owner, the Design/Builder, and their respective contractors and subcontractors in the Work.

7.3.2 Property insurance shall be on an all-risk policy form and shall insure against the perils of fire and extended coverage and physical loss or damage including, without duplication of coverage, theft, vandalism, malicious mischief, collapse, falsework, temporary buildings and debris removal including demolition occasioned by enforcement of any applicable legal requirements, and shall cover reasonable compensation for the services and expenses of the Design/Builder's Architect and other professionals required as a result of such insured loss. Coverage for other perils shall not be required unless otherwise provided in the Contract Documents.

7.3.3 If the Owner does not intend to purchase such property insurance required by this Part 2 Agreement and with all of the coverages in the amount described above, the Owner shall so inform the Design/Builder prior to commencement of the construction. The Design/Builder may then effect insurance which will protect the interests of the Design/Builder and the Design/Builder's contractors in the construction, and by appropriate Change Order the cost thereof shall be charged to the Owner. If the Design/Builder is damaged by the failure or neglect of the Owner to purchase or maintain insurance as described above, then the Owner shall bear all reasonable costs properly attributable thereto.

7.3.4 Unless otherwise provided, the Owner shall purchase and maintain such boiler and machinery insurance required by this Part 2 Agreement or by law, which shall specifically cover such insured objects during installation and until final acceptance by the Owner. This insurance shall include interests of the Owner, the Design/Builder, the Design/Builder's contractors and subcontractors in the Work, and the Design/Builder's Architect and other design professionals. The Owner and the Design/Builder shall be named insureds.

7.3.5 A loss insured under the Owner's property insurance shall be adjusted by the Owner as fiduciary and made payable to the Owner as fiduciary for the insureds, as their interests may appear, subject to requirements of any applicable mortgagee clause and of Subparagraph 7.3.10. The Design/Builder shall pay contractors their shares of insurance proceeds received by the Design/Builder, and by appropriate agreement, written where legally required for validity, shall require contractors to make payments to their subcontractors in similar manner.

7.3.6 Before an exposure to loss may occur, the Owner shall file with the Design/Builder a copy of each policy that includes insurance coverages required by this Paragraph 7.3. Each policy shall contain all generally applicable conditions, definitions, exclusions and endorsements related to this Project. Each policy shall contain a provision that the policy will not be canceled or allowed to expire until at least 30 days' prior written notice has been given to the Design/Builder.

7.3.7 If the Design/Builder requests in writing that insurance for risks other than those described herein or for other special hazards be included in the property insurance policy, the Owner shall, if possible, obtain such insurance, and the cost thereof shall be charged to the Design/Builder by appropriate Change Order.

7.3.8 The Owner and the Design/Builder waive all rights against each other and the Architect and other design professionals, contractors, subcontractors, agents and employees, each of the other, for damages, occurring during or after completion of the Work, caused by fire or other perils to the extent covered by property insurance obtained pursuant to this Paragraph 7.3 or other property insurance, except such rights as they may have to proceeds of such insurance held by the Owner as trustee. The Owner or Design/Builder, as appropriate, shall require from contractors and subcontractors by appropriate agreements, written where legally required for validity, similar waivers each in favor of other parties enumerated in this Paragraph 7.3. The policies shall provide such waivers of subrogation by endorsement or otherwise. A waiver of subrogation shall be effective as to a person or entity even though that person or entity would otherwise have a duty of indemnification, contractual or otherwise, did not pay the insurance premium directly or indirectly, and whether or not the person or entity had an insurable interest in the property damaged.

7.3.9 If required in writing by a party in interest, the Owner as trustee shall, upon occurrence of an insured loss, give bond for proper performance of the Owner's duties. The cost of required bonds shall be charged against proceeds received as fiduciary. The Owner shall deposit in a separate account proceeds so received, which the Owner shall distribute in accordance with such agreement as the parties in interest may reach, or in accordance with an arbitration award in which case the procedure shall be as provided in Article 10. If after such loss no other special agreement is made, replacement of damaged Work shall be covered

by appropriate Change Order.

7.3.10 The Owner as trustee shall have power to adjust and settle a loss with insurers unless one of the parties in interest shall object in writing, within five (5) days after occurrence of

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loss to the Owner's exercise of this power; if such objection be made, the parties shall enter into dispute resolution under procedures provided in Article 10. If distribution of insurance proceeds by arbitration is required, the arbitrators will direct such distribution.

7.3.11 Partial occupancy or use prior to Substantial Completion shall not commence until the insurance company or companies providing property insurance have consented to such partial occupancy or use by endorsement or otherwise. The Owner and the Design/ Builder shall take reasonable steps to obtain consent of the insurance company or companies and shall not, without mutual written consent, take any action with respect to partial occupancy or use that would cause cancellation, lapse or reduction of coverage.

7.4 LOSS OF USE INSURANCE

7.4.1 The Owner, at the Owner's option, may purchase and maintain such insurance as will insure the Owner against loss of use of the Owner's property due to fire or other hazards, however caused. The Owner waives all rights of action against the Design/Builder for loss of use of the Owner's property, including consequential losses due to fire or other hazards, however caused.

ARTICLE 8 CHANGES IN THE WORK

8.1 CHANGES

8.1.1 Changes in the Work may be accomplished after execution of this Part 2 Agreement, without invalidating this Part 2 Agreement, by Change Order, Construction Change Directive, or order for a minor change in the Work, subject to the limitations stated in the Contract Documents.

8.1.2 A Change Order shall be based upon agreement between the Owner and the Design/Builder; a Construction Change Directive may be issued by the Owner without the agreement of the Design/Builder; an order for a minor change in the Work may be issued by the Design/Builder alone.

8.1.3 Changes in the Work shall be performed under applicable provisions of the Contract Documents, and the Design/Builder shall proceed promptly, unless otherwise provided in the Change Order, Construction Change Directive, or order for a minor change in the Work.

8.1.4 If unit prices are stated in the Contract Documents or subsequently agreed upon, and if quantities originally contemplated are so changed in a proposed Change Order or Construction Change Directive that application of such unit prices to quantities of Work proposed will cause substantial inequity to the Owner or the Design/ Builder, the applicable unit prices shall be equitably adjusted.

8.2 CHANGE ORDERS

8.2.1 A Change Order is a written instrument prepared by the Design/Builder and signed by the Owner and the Design/Builder, stating their agreement upon all of the following:

- .1 a change in the Work;
- .2 the amount of the adjustment, if any, in the Contract Sum; and
- .3 the extent of the adjustment, if any, in the Contract Time.

8.2.2 If the Owner requests a proposal for a change in the Work from the Design/Builder and subsequently elects not to proceed with the change, a Change Order shall be issued to reimburse the Design/Builder for any costs incurred for estimating services, design services or preparation of proposed revisions to the Contract Documents.

8.3 CONSTRUCTION CHANGE DIRECTIVES

8.3.1 A Construction Change Directive is a written order prepared and signed by the Owner, directing a change in the Work prior to agreement on adjustment, if any, in the Contract Sum or Contract Time, or both.

8.3.2 Except as otherwise agreed by the Owner and the Design/Builder, the adjustment to the Contract Sum shall be determined on the basis of reasonable expenditures and savings of those performing the Work attributable to the change, including the expenditures for design services and revisions to the Contract Documents. In case of an increase in the Contract Sum, the cost shall include a reasonable allowance for overhead and profit. In such case, the Design/Builder shall keep and present an itemized accounting together with appropriate supporting data for inclusion in a Change Order. Unless otherwise provided in the Contract Documents, costs for these purposes shall be limited to the following:

- .1 costs of labor, including social security, old age and unemployment insurance, fringe benefits required by agreement or custom, and workers' compensation insurance;
- .2 costs of materials, supplies and equipment, including cost of transportation, whether incorporated or consumed;
- .3 rental costs of machinery and equipment exclusive of hand tools, whether rented from the Design/Builder or others;
- .4 costs of premiums for all bonds and insurance permit fees, and sales, use or similar taxes;
- .5 additional costs of supervision and field office personnel directly

attributable to the change; and fees paid to the Architect,
engineers and other professionals. '

8.3.3 Pending final determination of cost to the Owner, amounts not in dispute may be included in Applications for Payment. The amount of credit to be allowed by the Design/Builder to the Owner for deletion or change which results in a net decrease in the Contract Sum will be actual net

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cost. When both additions and credits covering related Work or substitutions are involved in a change, the allowance for overhead and profit shall be figured on the basis of the net increase, if any, with respect to that change.

8.3.4 When the Owner and the Design/Builder agree upon the adjustments in the Contract Sum and Contract Time, such agreement shall be effective immediately and shall be recorded by preparation and execution of an appropriate Change Order.

8.4 MINOR CHANGES IN THE WORK

8.4.1 The Design/Builder shall have authority to make minor changes in the Construction Documents and construction consistent with the intent of the Contract Documents when such minor changes do not involve adjustment in the Contract Sum or extension of the Contract Time. The Design/Builder shall promptly inform the Owner, in writing, of minor changes in the Construction Documents and construction.

8.5 CONCEALED CONDITIONS

8.5.1 If conditions are encountered at the site which are (1) subsurface or otherwise concealed physical conditions which differ materially from those indicated in the Contract Documents, or (2) unknown physical conditions of an unusual nature which differ materially from those ordinarily found to exist and generally recognized as inherent in construction activities of the character provided for in the Contract Documents, then notice by the observing party shall be given to the other party promptly before conditions are disturbed and in no event later than 21 days after first observance of the conditions. The Contract Sum shall be equitably adjusted for such concealed or unknown conditions by Change Order upon claim by either party made within 21 days after the claimant becomes aware of the conditions.

8.6 REGULATORY CHANGES

8.6.1 The Design/Builder shall be compensated for changes in the construction necessitated by the enactment or revisions of codes, laws or regulations subsequent to the submission of the Design/Builder's Proposal.

ARTICLE 9 CORRECTION OF WORK

9.1 The Design/Builder shall promptly correct Work rejected by the Owner or known by the Design/Builder to be defective or failing to conform to the requirements of the "Contract Documents, whether observed before or after Substantial Completion and whether or not fabricated, installed or completed. The Design/Builder shall bear costs of correcting such rejected Work, including additional testing and inspections.

9.2 If, within one (1) year after the date of Substantial Completion of the Work or, after the date for commencement of warranties established in a written agreement between the Owner and the Design/Builder, or by terms of an applicable special warranty required by the Contract Documents, any of the Work is found to be not in accordance with the requirements of the Contract Documents, the Design/Builder shall correct it promptly after receipt of a written notice from the Owner to do so unless the Owner has previously given the Design/ Builder a written acceptance of such condition.

9.3 Nothing contained in this Article 9 shall be construed to establish a period of limitation with respect to other obligations which the Design/Builder might have under the Contract Documents. Establishment of the time period of one (1) year as described in Subparagraph 9.2 relates only to the specific obligation of the Design/Builder to correct the Work, and has no relationship to the time within which the obligation to comply with the Contract Documents may be sought to be enforced, nor to the time within which proceedings may be commenced to establish the Design/Builder's liability with respect to the Design/Builder's obligations other than specifically to correct the Work.

9.4 If the Design/Builder fails to correct nonconforming Work as required or fails to carry out Work in accordance with the Contract Documents, the Owner, by written order signed personally or by an agent specifically so empowered by the Owner in writing, may order the Design/Builder to stop the Work, or any portion thereof, until the cause for such order has been eliminated; however, the Owner's right to stop the Work shall not give rise to a duty on the part of the Owner to exercise the right for benefit of the Design/Builder or other persons or entities.

9.5 If the Design/Builder defaults or neglects to carry out the Work in accordance with the Contract Documents and fails within seven (7) days after receipt of written notice from the Owner to commence and continue correction of such default or neglect with diligence and promptness, the Owner may give a second written notice to the Design/Builder and, seven (7) days following receipt by the Design/Builder of that second written notice and without prejudice to other remedies the Owner may have, correct such deficiencies. In such case an appropriate Change Order shall be issued deducting from payments then or thereafter due the Design/Builder, the costs of correcting such deficiencies. If the payments then or thereafter due the Design/Builder are not sufficient to cover the amount of the deduction, the Design/Builder shall pay the difference to the Owner, Such action by the Owner shall be subject to dispute resolution procedures as provided in Article 10.

ARTICLE 10 DISPUTE RESOLUTION - MEDIATION AND ARBITRATION

10.1 Claims, disputes or other matters in question between the parties to this Part 2 Agreement arising out of or relating to this Part 2 Agreement or breach thereof shall be subject to and decided by mediation or arbitration. Such

mediation or arbitration shall be conducted in accordance with the Construction Industry Mediation or Arbitration Rules of the American Arbitration Association currently in effect.

10.2 In addition to and prior to arbitration, the parties shall

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endeavor to settle disputes by mediation. Demand for mediation shall be filed in writing with the other party to this Part 2 Agreement and with the American Arbitration Association. A demand for mediation shall be made within a reasonable time after the claim, dispute or other matter in question has arisen. In no event shall the demand for mediation be made after the date when institution of legal or equitable proceedings based on such claim, dispute or other matter in question would be barred by the applicable statutes of repose or limitations.

10.3 Demand for arbitration shall be filed in writing with the other party to this Part 2 Agreement and with the American Arbitration Association. A demand for arbitration shall be made within a reasonable time after the claim, dispute or other matter in question has arisen. In no event shall the demand for arbitration be made after the date when institution of legal or equitable proceedings based on such claim, dispute or other matter in question would be barred by the applicable statutes of repose or limitations.

10.4 An arbitration pursuant to this Article may be joined with an arbitration involving common issues of law or fact between the Design/Builder or Owner and any person or entity with whom the Design/Builder or Owner has a contractual obligation to arbitrate disputes. Design/Builder and Owner shall insert provisions in their contracts with other parties for this Project requiring these other parties to consent to participate, at the request of Owner or Design/Builder, in an arbitration involving common issues of law or fact. The foregoing agreement to arbitrate and other agreements to arbitrate with an additional person or entity duly consented to by the parties to this Part 2 Agreement shall be specifically enforceable in accordance with applicable law in any court having jurisdiction thereof.

10.5 The award rendered by the arbitrator or arbitrators shall be final, and judgment may be entered upon it in accordance with applicable law in any court having jurisdiction thereof.

ARTICLE 11 MISCELLANEOUS PROVISIONS

11.1 Unless otherwise provided, this Part 2 Agreement shall be governed by the law of the place where the Project is located. In case a provision of this Agreement is held to be invalid, illegal, or unenforceable, the validity, legality and enforceability of the remaining provisions shall not be affected.

11.2 SUBCONTRACTS

11.2.1 The Design/Builder, as soon as practicable after execution of this Part 2 Agreement, shall furnish to the Owner in writing the names of the persons or entities the Design/Builder will engage as contractors for the Project.

11.3 WORK BY OWNER OR OWNER'S CONTRACTORS

11.3.1 The Owner reserves the right to perform construction or operations related to the Project with the Owner's own forces, and to award separate contracts in connection with other portions of the Project or other construction or operations on the site under conditions of insurance and waiver of subrogation identical to the provisions of this Part 2 Agreement. If the Design/Builder claims that delay or additional cost is involved because of such action by the Owner, the Design/Builder shall assert such claims as provided in Subparagraph 11.4.

11.3.2 The Design/Builder shall afford the Owner's separate contractors reasonable opportunity for - introduction and storage of their materials and equipment and performance of their activities and shall connect and coordinate the Design/Builder's construction and operations with theirs as required by the Contract Documents.

11.3.3 Costs caused by delays or by improperly timed activities or defective construction shall be borne by the party responsible therefor.

11.4 CLAIMS FOR DAMAGES

11.4.1 If either party to this Part 2 Agreement suffers injury or damage to person or property because of an act or omission, of the other party, of any of the other party's employees or agents, or of others for whose acts such party is legally liable, written notice of such injury or damage, whether or not insured, shall be given to the other party within a reasonable time not exceeding 21 days after first observance. The notice shall provide sufficient detail to enable the other party to investigate the matter. If a claim of additional cost or time related to this claim is to be asserted, it shall be filed in writing.

11.5 INDEMNIFICATION

11.5.1 To the fullest extent permitted by law, the Design/Builder shall indemnify and hold harmless the Owner, Owner's consultants, and agents and employees of any of them from and against claims, damages, losses and expenses, including but not limited to attorneys' fees, arising out of or resulting from performance of the Work, provided that such claim, damage, loss or expense is attributable to bodily injury, sickness, disease or death, or to injury to or destruction of tangible property (other than the Work itself) but only to the extent caused in whole or in part by negligent acts or omissions of the Design/Builder, anyone directly or indirectly employed by the Design/Builder or anyone for whose acts the Design/Builder may be liable, regardless of whether or not such claim, damage, loss or

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expense is caused in part by a party indemnified hereunder. Such obligation shall not be construed to negate, abridge, or reduce other rights or obligations of indemnity which would otherwise exist as to a party or person described in this Paragraph 11.5.

11.5.2 In claims against any person or entity indemnified under this Paragraph 11.5 by an employee of the Design/Builder, anyone directly or indirectly employed by the Design/Builder or anyone for whose acts the Design/Builder may be liable, the indemnification obligation under this Paragraph 11.5 shall not be limited by a limitation on amount or type of damages, compensation or benefits payable by or for the Design/Builder under workers' compensation acts, disability benefit acts or other employee benefit acts.

11.6 SUCCESSORS AND ASSIGNS

11.6.1 The Owner and Design/Builder, respectively, bind themselves, their partners, successors, assigns and legal representatives to the other party to this Part 2 Agreement and to the partners, successors and assigns of such other party with respect to all covenants of this Part 2 Agreement. Neither the Owner nor the Design/Builder shall assign this Part 2 Agreement without the written consent of the other. The Owner may assign this Part 2 Agreement to any institutional lender providing construction financing, and the Design/Builder agrees to execute all consents reasonably required to facilitate such an assignment. If either party makes such an assignment, that party shall nevertheless remain legally responsible for all obligations under this Part 2 Agreement, unless otherwise agreed by the other party.

11.7 TERMINATION OF PROFESSIONAL DESIGN SERVICES

11.7.1 Prior to termination of the services of the Architect or any other design professional designated in this Part 2 Agreement, the Design/Builder shall identify to the Owner in writing another architect or other design professional with respect to whom the Owner has no reasonable objection, who will provide the services originally to have been provided by the Architect or other design professional whose services are being terminated.

11.8 EXTENT OF AGREEMENT

11.8.1 This Part 2 Agreement represents the entire agreement between the Owner and the Design/Builder and supersedes prior negotiations, representations or agreements, either written or oral. This Part 2 Agreement may be amended only by written instrument and signed by both the Owner and the Design/Builder.

ARTICLE 12 TERMINATION OF THE AGREEMENT

12.1 TERMINATION BY THE OWNER

12.1.1 This Part 2 Agreement may be terminated by the Owner upon 14 days' written notice to the Design/Builder in the event that the Project is abandoned. If such termination occurs, the Owner shall pay the Design/Builder for work completed and for proven loss sustained upon materials, equipment, tools, and construction equipment and machinery, including reasonable profit and applicable damages.

12.1.2 If the Design/Builder defaults or persistently fails or neglects to carry out the Work in accordance with the Contract Documents or fails to perform the provisions of this Part 2 Agreement, the Owner may give written notice that the Owner intends to terminate this Part 2 Agreement. If the Design/Builder fails to correct the defaults, failure or neglect within seven (7) days after being given notice, the Owner may then give a second written notice and, after an additional seven (7) days, the Owner may without prejudice to any other remedy terminate the employment of the Design/Builder and take possession of the site and of all materials, equipment, tools and construction equipment and machinery thereon owned by the Design/Builder and finish the Work by whatever method the Owner may deem expedient. If the unpaid balance of the Contract Sum exceeds the expense of finishing the Work and all damages incurred by the Owner, such excess shall be paid to the Design/Builder. If the expense of completing the Work and all damages incurred by the Owner exceeds the unpaid balance, the Design/Builder shall pay the difference to the Owner. This obligation for payment shall survive termination of this Part 2 Agreement.

12.2 TERMINATION BY THE DESIGN/BUILDER

12.2.1 If the Owner fails to make payment when due, the Design/Builder may give written notice of the Design/Builder's intention to terminate this Part 2 Agreement. If the Design/Builder fails to receive payment within seven (7) days after receipt of such notice by the Owner, the Design/Builder may give a second written notice and, seven (7) days after receipt of such second written notice by the Owner, may terminate this Part 2 Agreement and recover from the Owner payment for work executed and for proven losses sustained upon materials, equipment, tools, and construction equipment and machinery, including reasonable profit and applicable damages.

ARTICLE 13 BASIS OF COMPENSATION

The Owner shall compensate the Design/Builder in accordance with Article 5, Payments, and the other provisions of this Part 2 Agreement as described below.

13.1 COMPENSATION

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13.1.1 For the Design/Builder's performance of the Work, as described in Paragraph 3.2 and including any other services listed in Article 14 as part of Basic Services, the Owner shall pay the Design/Builder in current funds follows: The Owner agrees to reimburse the Design/Builder the cost of the Work as defined in the attached Exhibit A, and to pay the Design/Build Fee (Fee) stipulated in Paragraph 13.1.3. The maximum cost to the Owner, including the cost of the Work and the Fee, shall be guaranteed not to exceed the Guaranteed Maximum Price (GMP), which shall be set by amendment. The GMP and Fee shall be increased for additive changes in the Work as provided in Article 8 or for additional phases of Work authorized by the Owner by subsequent amendment.

13.1.2 If the final cost of the Work, plus Fee, is less than the GMP (as may be adjusted), such savings shall accrue one hundred percent (100%) to the Owner.

13.1.3 Design/Build Fee (Fee) -- The Owner agrees to pay the Design/Builder a Fee of two and thirty-nine-hundredths percent (2.39%) of the estimated cost of the Work. The Fee shall be fixed at the time the GMP is agreed by the parties and thereafter shall not be reduced on account of savings to the Owner pursuant to Paragraph 13.1.2. The Fee shall be increased or decreased by an amount equal to two and thirty-nine-hundredths percent (2.39%) of the cost of any change in the Work.

13.1.4 Design costs and fees for Basic Services shall be reimbursed as a cost of the Work at the rate shown in the attached Exhibit B. Design costs and fees for additional services shall be reimbursed at standard rates.

13.2 REIMBURSABLE EXPENSES -- SEE EXHIBIT A, COST OF THE WORK

13.2.1

13.2.2

13.3 INTEREST PAYMENTS

13.3.1 The rate of interest for past due payments shall be as follows: ten percent (10%) per annum.

13.4 PROGRESS PAYMENTS

13.4.1 Progress payment applications shall be submitted by Design/Builder the first day of every month and payments shall be made by Owner by the twentieth day of each month, based on the percentage of Work completed. A ten percent (10%) retainage shall be withheld from each progress payment until substantial completion. At substantial completion all retainage shall be returned less an amount not to exceed one hundred fifty percent (150%) of the value of the punchlist. All retainage held after substantial completion shall be returned to Design/Builder no later than the final payment.

13.4.2 The Design/Builder shall be paid a pro rata share of the Fee with each progress payment, with the balance to be paid with the final payment.

13.5 PERFORMANCE INCENTIVES

13.5.1 Performance-based incentives shall be earned by the Design-Builder and Designer pursuant to Exhibit D.

(Usury laws and requirements under the Federal Truth in Lending Act, similar state and local consumer credit laws and other regulations at the Owner's and Design/ Builder's principal places of business, at the location of the Project and elsewhere may affect the validity of this provision. Specific legal advice should be obtained with respect to deletion, modification or other requirements, such as written disclosures or waivers.)

ARTICLE 14 OTHER CONDITIONS AND SERVICES

14.1 The Basic Services to be performed shall be commenced on the date of the Notice to Proceed issued by the Owner and, subject to authorized adjustments and to delays not caused by the Design/Builder, Substantial Completion shall be achieved in the Contract Time to be determined by amendment to this Agreement.

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14.1.1 In the event that Design/Builder shall fail to achieve Substantial Completion of the construction to be performed under this Agreement within the time specified in Article 14 of this Agreement and the Amendments thereto, after due allowance for any extension(s) of time pursuant to the contract documents, the Design/Builder shall pay the Owner the sum of Five Hundred and no/100 Dollars (\$500.00) per day for each business day that the Design/Builder fails to achieve Substantial Completion of the construction to be performed. The foregoing shall be liquidated damages and not a penalty. The Owner shall have the right (but not the duty) to deduct such damages from payments due or otherwise to become due to the Design/Builder under this Agreement.

14.2 The Basic Services beyond those described in Article 3 include Preconstruction Services as listed in Exhibit C: Basic or Additional Services to be provided by Owner ("Excluded Services") are listed in Exhibit E.

14.3 Preconstruction Services commenced February 1, 2003. Upon execution of an Amendment establishing a GMP as contemplated in paragraph 13.1.1. Owner shall reimburse Design-Builder for all costs incurred in Preconstruction Services as indicated in paragraph 13.2 and Exhibit A. Such cost shall be included in the GMP calculation. If the Owner should terminate the services of Design-Builder prior to agreeing to a GMP Amendment. Owner shall reimburse Design-Builder its costs pursuant to paragraph 13.2 and Exhibit A, provided, however, that if such termination shall occur prior to July 1, 2003, the termination cost shall be Forty Thousand Dollars (\$40,000).

14.4 The Design/Builder shall submit an Application for Payment on the first (1st) day of each month.

14.5 The Design/Builder's Proposal includes the following documents:
(List the documents by specific title and date; include any required performance and payment bonds.)

| TITLE | DATE |
|------------------------------|------|
| To be attached by amendment. | |

14.6 Design/Builder is not a licensed or authorized architect or engineer and Owner acknowledges that it is contracting with Design/Builder to merely furnish, but not perform, design services. Owner further acknowledges that Design/Builder will subcontract all design services to licensed design professionals, duly authorized and registered to render such services in the state in which the Project is located. With this understanding, Owner waives any defense to an action by Design/Builder to enforce this Agreement which defense relates to Design/Builder's authorization or license to render design services in the state in which the Project is located.

14.7 The Owner acknowledges that Design/Builder is not a design professional, but is merely furnishing, not performing, professional design services. Owner expressly agrees that Owner's recovery for claims of professional errors and omissions (under contract, tort or any other theory of law) shall be limited to the amount recoverable from the errors and omissions insurance coverage carried by the design professionals employed by the Design/Builder and the Fee paid to the Design/Builder on the cost of design services provided by the design professionals. The Architect named herein shall maintain a professional errors and omissions policy with initial coverage valued at Five Million Dollars (\$5,000,000).

14.8 The Owner and Design/Builder shall not be liable to each other for any special, incident indirect, punitive, exemplary or consequential damages, including but not limited to: loss of profits or revenue; loss of use; loss of opportunity; loss of goodwill; cost of substitute goods, facilities or services; cost of capital; governmental and regulatory sanctions; and claims of customers for such damages.

14.9 The Owner shall provide the Design/Builder all documents necessary to allow Design/Builder, its contractors and suppliers, to utilize Owner's tax exemption. The Sales and/or Use Tax saved by the use of the tax exemption are not included in the GMP established pursuant to Article 13. The Owner agrees to defend and indemnify Design/Builder, its contractors and suppliers against any liability for Sales Tax, Use Tax, interest, penalty, and attorneys' fees, incurred as a result of the failure to pay Sales or Use Tax upon the value of materials, equipment or other property purchased in accordance with tax exemption procedures. This indemnity shall survive the acceptance of final payment by the Design/Builder or any termination of this Agreement.

14.10 This Agreement and the Performance thereof by both parties is contingent upon the obtainment of all necessary zoning and permits for this Project and written notice by the Owner to the Design/Builder to proceed with the Work.

14.11 The Owner shall, upon request from Design/Builder, provide the Design/Builder with satisfactory evidence of construction financing.

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14.12 EXHIBITS

Exhibit A - Cost of the Work

Exhibit B - Design Services, Fees and Costs

Exhibit C - Preconstruction Services

Exhibit D - Performance Incentives

Exhibit E - Excluded Services

Exhibit F - Notice to Owner

THIS AGREEMENT CONTAINS A BINDING ARBITRATION PROVISION WHICH MAY BE ENFORCED BY THE PARTIES.

This Agreement entered into as of the day and year first written above.

H&R BLOCK TAX SERVICES, INC.

J.E. DUNN CONSTRUCTION COMPANY

/s/ Jeffery Yabuki

/s/ Casey S. Halsey

OWNER(Signature)

DESIGN/BULIDER(Signature)

JEFFERY YABUKI, PRESIDENT

CASEY S. HALSEY, SR. VICE PRESIDENT

(Printed name and title)

(Printed name and title)

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EXHIBIT A

COSTS OF THE WORK

COSTS TO BE REIMBURSED

1. The term Cost of the Work shall mean costs necessarily incurred in the proper performance of the Work and paid by the Design-Builder. Such costs shall be at rates not higher than the standard paid in the locality of the Work except with prior consent of the Owner, and shall include the items set forth below.
 - 1.1 Wages paid for labor in the direct employ of the Design-Builder in the performance of the Work of the Project under applicable collective bargaining agreements, or under a salary or wage schedule agreed upon by the Owner and Design-Builder, and including cost of insurance, contributions, assessments, benefits, bonuses or taxes incurred.
 - 1.2 Personnel costs of Design-Builder's personnel, including the salaries of Construction Operations, Project Administration, and Billings and Payment staff, whether stationed at the site of the Project or at local offices, including payroll taxes, insurance and benefits, for that portion of time attributable to the Project, at the standard corporate rate. Personnel engaged, at shops or on the road, in expediting the production or transportation of materials or equipment, shall be considered as stationed at the field office and their salaries paid for that portion of their time spent on this Work.
 - 1.3 Personnel costs of Design-Builder and it's consultants, at the standard corporate rate, for all preconstruction services performed on behalf of the Project, regardless of the location where performed.
 - 1.4 The portion of reasonable travel and subsistence expenses of the Design-Builder or of his officers or employees incurred while traveling in discharge of duties connected with the Work.
 - 1.5 Cost of all materials, supplies and equipment incorporated in the Work, including costs of transportation thereof.
 - 1.6 Payments made by the Design-Builder to Subcontractors for Work performed pursuant to Subcontracts under this Agreement.
 - 1.7 Cost, including transportation and maintenance, of all materials, supplies, equipment, temporary facilities and hand tools not owned by the workers, which are consumed in the performance of the Work, and cost less salvage value on such items used but not consumed which remain the property of the Design-Builder.
 - 1.8 Rental charges of all necessary machinery and equipment, exclusive of hand tools, used at the site of the Work, whether rented from the Design-Builder or others, including installation, minor repairs and replacements, dismantling, removal, transportation and delivery costs thereof, at rental charges consistent with those prevailing in the area.
 - 1.9 Cost of premiums for all bonds and insurance which the Design-Builder is required by the Contract Documents to purchase and maintain and deductibles incurred.
 - 1.10 Sales, use or similar taxes related to the Work and for which the Design-Builder is liable imposed by any governmental authority.
 - 1.11 Permit fees, royalties, damages for infringement of patents and costs of defending suits therefore, and deposits lost for causes other than the Design-Builder's negligence.
 - 1.12 Losses and expenses, not compensated by insurance or otherwise, sustained by the Design-Builder in connection with the Work, provided they have resulted from causes other than the fault or neglect of the Design-Builder
 - 1.13 Expenses such as telegrams, long distance telephone calls, telephone service at the site, mobile phone or radio use, expressage, and petty cash items in connection with the Work.

- 1.14 Cost of removal of all debris.
- 1.15 Costs incurred due to an emergency affecting the safety of persons and property.
- 1.16 Other costs incurred in the performance of the Work if and to the extent approved in advance in writing by the Owner.
- 1.17 The cost of guaranty or warranty work, not recoverable from subcontractors, vendors or insurance, to the extent of cost savings realized by the Owner and the Design/Builder (pro rata).
- 1.18 The cost of design services performed by architects or engineers required by the Agreement or performed in the interest of the Project.
- 1.19 Expense of reproduction of drawings, specifications and other Contract Documents.
- 1.20 The cost of services provided by Consultants, if required.

COSTS NOT TO BE REIMBURSED

- 2. The term Cost of the Work shall not include any of the items set forth below.
- 2.1 Salaries or other compensation of the Design-Builder's personnel at the Design-Builder's principal office and branch offices, except as indicated in 1.3 above.
- 2.2 Expenses of the Design-Builder's principal and branch offices other than the field office.
- 2.3 Any part of the Design-Builder's capital expenses, including interest on the Design-Builder's capital employed for the Work.
- 2.4 Overhead or general expenses of any kind, except as may be expressly included above.
- 2.5 Costs due to the negligence of the Design-Builder or any of its supervisory staff.
- 2.6 The cost of any item not specifically and expressly included in the items described above.
- 2.7 Costs in excess of the Guaranteed Maximum Cost.

EXHIBIT B

H & R BLOCK WORLD HEADQUARTERS

DESIGN FEE APPROACH

| DESCRIPTION | RENOVATION OF 150,000 SF NEW 250,000 SF OFFICE NEW GARAGE |
|--|---|
| ----- | ----- |
| APPROXIMATE TOTAL CONSTRUCTION AND DESIGN COST | \$ 70,538,013 |

| DESIGN FEES (ARCHITECTURAL, MEP, STRUCTURAL) | % OF COMPONENT | % OF TOTAL COST |
|---|----------------|-----------------|
| ----- | ----- | ----- |
| Percent of Building Shell/Sitework Cost | 4.89% | 1.5703% |
| Percent of Renovation Cost | 7.13% | 0.8398% |
| Percent of Tenant Finish Cost | 7.67% | 1.6556% |
| Percent of Garage Cost | 5.16% | 1.4857% |
| Percent of Core/Shell Cost for Special Consultants (Note 4) | 0.46% | 0.1186% |
| | | ----- |
| A/E FEE % OF TOTAL COST | | 5.6700% |
| | | ----- |
| | | 5.6700% |

Architectural Fees are calculated as a percentage of the DESIGN/BUILD TOTAL and are capped at 5.67%

EXHIBIT C

14.2 PRECONSTRUCTION SERVICES

14.2.1 Provide preliminary evaluation of the program and Project budget requirements, each in terms of the other. With the Architect's assistance, prepare preliminary estimates of Construction Cost for early schematic designs based on area, volume or other standards. Assist the Owner and the Architect in achieving mutually agreed upon program and Project budget requirements and other design parameters. Provide cost evaluations of alternative materials and systems.

14.2.2 Review designs during their development. Advise on site use and improvements, selection of materials, building systems and equipment and methods of Project delivery. Provide recommendations on relative feasibility of construction methods, availability of materials and labor, time requirements for procurement, installation and construction, and factors related to cost including, but not limited to, costs of alternative designs or materials, preliminary budgets and possible economies.

14.2.3 Provide for the Architect's and the Owner's review and acceptance, and periodically update, a Project Schedule that coordinates and integrates the Contractor's services, the Architect's services and the Owner's responsibilities with anticipated construction schedules.

14.2.4 Prepare for the Owner's approval a more detailed estimate of Construction Cost, developed by using estimating techniques which anticipate the various elements of the Project, and based on Schematic Design Documents prepared by the Architect. Update and refine this estimate periodically as the Architect prepares Design Development and Construction Documents. Advise the Owner and the Architect if it appears that the Construction Cost may exceed the Project budget. Make recommendations for corrective action.

14.2.5 Coordinate Contract Documents by consulting with the Owner and the Architect regarding Drawings and Specifications as they are being prepared, and recommending alternative solutions whenever design details affect construction feasibility, cost or schedules.

14.2.6 Develop a Project Construction Schedule providing for all major elements such as phasing of construction and times of commencement and completion required of each separate Contractor. Provide the Project Construction Schedule for each set of Bidding Documents.

14.2.7 Investigate and recommend a schedule for the Owner's purchase of materials and equipment requiring long lead time procurement, and coordinate the schedule with the early preparation of portions of the Contract Documents by the Architect. Expedite and coordinate delivery of these purchases.

14.2.8 Prequalify Bidders and develop Bidders' interest in the Project. Establish bidding schedules. With the assistance of the Architect, issue Bidding Documents to Bidders. Conduct pre-bid conferences to familiarize Bidders with the Bidding Documents and with any special systems, materials or methods. Assist the Architect with the receipt of questions from Bidders, and with the issuance of Addenda.

14.2.9 Receive Bids and prepare bid analysis.

EXHIBIT D

H & R BLOCK

PERFORMANCE INCENTIVES

INCENTIVES TO BE FORMULATED BY THE PARTIES AND EXHIBIT TERMS ADDED BY
AMENDMENT.

EXHIBIT E

H & R BLOCK WORLD HEADQUARTERS

EXCLUDED SERVICES

| INITIAL SITE REVIEW/SITE | DESIGN DISCIPLINE | % FEE | \$ FEE |
|--------------------------|-------------------|----------|---------|
| Master Plan only | Architectural | lump sum | 7,500 |
| | Civil | lump sum | 1,500 |
| | | TOTAL | \$9,000 |

| DETAILED SITE REVIEW/SITE | DESIGN DISCIPLINE | % FEE | \$ FEE |
|---------------------------|-------------------|----------|----------|
| Revised Master Plan | Architectural | lump sum | 16,000 |
| 3-d Massing Studies | Civil | lump sum | 3,200 |
| Concept Plans & Sections | Traffic | lump sum | 3,200 |
| Grading Plan | | TOTAL | \$22,400 |

| OWNER PROVIDED | ESTIMATED * |
|--------------------|--------------|
| Civil Engineering | 75,000 |
| Civil Survey | 25,000 |
| GeoTech | 6,000 |
| Special Inspection | 250,000 |
| Testing | 250,000 |
| Reimbursables | 250,000 |
| Development Tax | 400,000 |
| *ESTIMATED TOTAL | \$ 1,256,000 |

Note: Team will solicit design bids from vendors once size/scope is determined.

Note: Team will solicit design bids from vendors once size/scope is determined.

Note: This represents approx 10 borings. The Team will solicit design bids from vendors once size/scope is determined.

Note: Owner will contract directly with this vendor.

Note: Owner will contract directly with this vendor.

Includes: plotting, printing, travel, photos, messenger, long distance, faxes, etc.

Note: Owner will pay directly to City, if applicable.

| OWNER OPTIONS * | FEE RATE | ESTIMATE * |
|-----------------------------------|--------------------|-------------|
| As-Built Record Drawings | | \$ 10,000 |
| 3-D models/renderings | \$15,000/rendering | \$ 30,000 |
| Physical Model | \$15,000/model | \$ 15,000 |
| Move/Change Management | \$.20/usf | \$ 70,000 |
| CIFM/CAFM Services | \$.06/usf/annually | \$ 21,000 |
| Pre/Post Occupancy Evaluation | \$.03/usf | \$ 10,500 |
| Art Selection | allowance | \$ 25,000 |
| Signage (Interior/Exterior) | \$.05/usf | \$ 17,500 |
| Project Website Hosting/Maint | \$ 1,000/month | \$ 30,000 |
| Furniture, Fixtures and Equipment | \$.80/usf | \$ 280,000 |
| Commissioning | \$.50/usf | \$ 200,000 |
| Interior Signage | 5.00% | 17,500 |
| Food Service/Kitchen | \$1.25/usf | 12,500 |
| AV/Acoustical | \$1.50/usf | 22,500 |
| Security | \$.40/usf | 140,000 |
| Lighting | \$.50/usf | 50,000 |
| IT/Telecom | \$.25/usf | 87,500 |
| IT/Telecom | \$2.00/usf | 40,000 |
| * ESTIMATED TOTAL | | \$1,079,000 |

Includes logistic meetings, IT coordination, vendor selection, move schedule, and management. Excludes Furniture).

Includes set-up, yearly software updates, web hosting, tech support, and customization of reports.

Assumes digital questionnaire and digital interaction with Owner.

Will vary by product and/or dealer.

Consultant provides in-depth ME system commissioning to the Owner.

This is room-by-room identification that is beyond the "code required" signage.

This assumes a 10,000 u.s.f. kitchen/cafeteria.

This assumes a total of 15,000 u.s.f. of conferencing rooms.

This assumes security provisions throughout the office building only.

This assumes specialty lighting design in 100,000 u.s.f.

This assumes IT/Telecom design in a whole building.

This assumes specialty IT/Telecom design in a 20,000 Data Center.

EXHIBIT F

NOTICE TO OWNER

FAILURE OF THIS CONTRACTOR TO PAY THOSE PERSONS SUPPLYING MATERIAL OR SERVICES TO COMPLETE THIS CONTRACT CAN RESULT IN THE FILING OF A MECHANIC'S LIEN ON THE PROPERTY WHICH IS THE SUBJECT OF THIS CONTRACT PURSUANT TO CHAPTER 429, RSMo. TO AVOID THIS RESULT YOU MAY ASK THIS CONTRACTOR FOR "LIEN WAIVERS" FROM ALL PERSONS SUPPLYING MATERIAL OR SERVICES FOR THE WORK DESCRIBED IN THIS CONTRACT. FAILURE TO SECURE LIEN WAIVERS MAY RESULT IN YOUR PAYING FOR LABOR AND MATERIAL TWICE.

END OF EXHIBIT F

AMENDMENT NO. 1
TO THE
AGREEMENT
BETWEEN OWNER AND DESIGN BUILDER

MODIFICATION AND AMENDMENT

Made as of the 1st day of January in the year 2003

BETWEEN the Owner: H&R Block Tax Services, Inc.
 4400 Main
 Kansas City, MO 64111

and the Design Builder: J.E. Dunn Construction Company
 929 Holmes
 Kansas City, MO 64106

The Project: H&R Block World Headquarters
 J.E. Dunn Project No. 2872

The Architect: CDFM(2) Architecture, Inc.
 1015 Central
 Kansas City, MO 64105

The Owner and the Design Builder agree as set forth below:

WHEREAS, the Owner and Design Builder have previously agreed to amend their Agreement to establish scope, costs, schedule, and Contract Documents, and

WHEREAS, the Owner and Design Builder now wish to so amend their Agreement,

NOW, THEREFORE, in consideration of the mutual covenants and conditions contained herein, the Parties hereto agree to the Amendment of their Contract dated May 5, 2003, as set for the below:

1. This Amendment No. 1 is to authorize Pre-Construction and Site Selection Services. When Pre-Construction work is complete, Job. No. 2872 will be closed. This job will be for pre-site selection costs during the period of January 1, 2003 through December 31, 2003.
2. In accordance with Paragraph 14.1, the Notice to Proceed for the Work of this Amendment shall be the date of this Amendment and the Substantial Completion date shall be established upon the mutual agreement of the parties.

3. In accordance with Paragraph 13.1.1 of the Agreement, the Guaranteed Maximum Price established for the Work of this Amendment shall be Four Hundred Forty One Thousand Eighty One Dollars (\$441,081.00),

pursuant to Paragraph 13.1.3, the Design Builder's Fee for the work of this Amendment shall be established as: Ten Thousand Two Hundred Ninety Six Dollars (\$10,296.00).

This Modification and Amendment entered into as of the day and year first written above.

OWNER:

H&R BLOCK TAX SERVICES, INC.

By: /s/ Timothy R. Mertz

DESIGN BUILDER:

J.E. DUNN CONSTRUCTION COMPANY

By: /s/ Casey S. Halsey

Casey S. Halsey
Senior Vice President

AMENDMENT NO. 2
TO THE
AGREEMENT
BETWEEN OWNER AND DESIGN BUILDER

MODIFICATION AND AMENDMENT

Made as of the 1st day of January in the year 2003

BETWEEN the Owner: H&R Block Tax Services, Inc.
 4400 Main
 Kansas City, MO 64111

and the Design Builder: J.E. Dunn Construction Company
 929 Holmes
 Kansas City, MO 64106

The Project: H&R Block World Headquarters
 J.E. Dunn Project No. 8910

The Architect: CDFM(2) Architecture, Inc.
 1015 Central
 Kansas City, MO 64105

The Owner and the Design Builder agree as set forth below:

WHEREAS, the Owner and Design Builder have previously agreed to amend their Agreement to establish scope, costs, schedule, and Contract Documents, and

WHEREAS, the Owner and Design Builder have previously entered into Amendments as reflected in Exhibit B, and

WHEREAS, the Owner and Design Builder now wish to so amend their Agreement,

NOW, THEREFORE, in consideration of the mutual covenants and conditions contained herein, the Parties hereto agree to the Amendment of their Contract dated May 5, 2003, as set for the below:

1. This Amendment No. 2 will modify the fee structure for the Design Builder by revising Article 13.1.3 as follows:

13.1.3 Design/Build Fee - The Owner agrees to pay the Design/Builder a fee of Two and Thirty-Nine Hundredths Percent (2.39%) of the estimated cost of the work for the Pre-Site Selection phase of the project, more clearly defined as the period of time between January 1, 2003 and December 31, 2003. The fee shall be fixed at the time the GMP is agreed by the parties and thereafter shall not be

reduced on the account of savings to the Owner pursuant to Paragraph 13.1.2. The fee shall be increased or decreased by an amount equal to Two and Thirty-Nine Hundredths Percent (2.39%) of the cost of any change in the work.

The Owner agrees to pay the Design/Builder a fee of Two and Thirty-Three Hundredths Percent (2.33%) of the estimated cost of the work for all phases of the work except Pre-Site Selection. The fee shall be fixed at the time the GMP is agreed by the parties and thereafter shall not be reduced on the account of savings to the Owner pursuant to Paragraph 13.1.2. The fee shall be increased or decreased by an amount equal to Two and Thirty-Three Hundredths Percent (2.33%) of the cost of any change in the work.

The Owner agrees that the Design/Builder may perform certain trade scopes as a cost of the work. Such trade work cost shall be determined by summation of reimbursable cost plus a trade work fee of Six and Five Tenths Percent (6.50%). The Cost to be reimbursed for Trade Work shall be defined as set forth in Exhibit A hereto. Design/Builder and Owner shall agree on a Guaranteed Maximum Price for such trade work ("TW-GMP"). The fee shall be fixed at the time the TW-GMP is agreed by the parties and thereafter shall not be reduced on the account of savings. Contractor agrees that all savings shall accrue to Owner. The fee shall be increased or decreased by an amount equal to Six and Five Tenths Percent (6.50%) of the cost of any change in the work.

2. This Amendment No. 2 shall also clarify the phasing of the GMP process by adding the following to paragraph 13.1.1 of the Agreement:

"It is the intention of the Owner and Design Builder to have the Commencement of the Work authorized in phases. With each such phase, the Design/Builder shall present the proposed modification to the overall Project cost, Design/Builder's Fee and GMP, and how the cost for such phase compares to budget. Upon agreement of the Owner and Design/Builder as to the scope for such phase and the resulting modification to the Design/Builder's cost, Fee and GMP, the parties shall enter into an Amendment to the Agreement to add that Phase to the Project and to reflect the adjustment to the GMP and Contractor's Fee and to supplement the Contract Documents to reflect the change in the scope of work for that Phase. Each subsequent Phase so authorized shall be administered by this process."

This Modification and Amendment entered into as of the day and year first written above.

OWNER:

H&R BLOCK TAX SERVICES, INC.

By: /s/ Timothy R. Mertz

DESIGN BUILDER:

J.E. DUNN CONSTRUCTION COMPANY

By: /s/ Casey S. Halsey

Casey S. Halsey
Senior Vice President

EXHIBIT A

COSTS OF THE WORK

FOR THE CONCRETE WORK AND REBAR INSTALLATION SELF-PERFORMED BY THE CONTRACTOR
("CONCRETE WORK")

COSTS TO BE REIMBURSED

1. The term Cost of the Work shall mean costs necessarily incurred in the proper performance of the Concrete Work and paid by the Contractor. Such costs shall be at rates not higher than the standard paid in the locality of the Concrete Work except with prior consent of the Owner, and shall include the items set forth below.
 - 1.1 Wages paid for labor in the direct employ of the Contractor in the performance of the Concrete Work of the Project under applicable collective bargaining agreements, or under a salary or wage schedule agreed upon by the Owner and Contractor, and including cost of insurance, contributions, assessments, benefits, bonuses or taxes incurred.
 - 1.2 Personnel costs of Contractor's personnel, including the salaries of Construction Operations, Project Administration, and Billings and Payment staff, whether stationed at the site of the Project or at local offices, including payroll taxes, insurance and benefits, for that portion of time attributable to the Project, at the standard corporate rate (see attached rates). Personnel engaged, at shops or on the road, in expediting the production or transportation of materials or equipment, shall be considered as stationed at the field office and their salaries paid for that portion of their time spent on this Concrete Work.
 - 1.3 The portion of reasonable travel and subsistence expenses of the Contractor or of his officers or employees incurred while traveling in discharge of duties connected with the Concrete Work.
 - 1.4 Cost of all materials, supplies and equipment incorporated in the Concrete Work, including costs of transportation thereof.
 - 1.5 Payments made by the Contractor to Subcontractors for Concrete Work performed pursuant to Subcontracts under this Agreement.
 - 1.6 Cost, including transportation and maintenance, of all materials, supplies, equipment, temporary facilities and hand tools not owned by the workers, which are consumed in the performance of the Concrete Work, and cost less salvage value on such items used but not consumed which remain the property of the Contractor.
 - 1.7 Rental charges of all necessary machinery and equipment, exclusive of hand tools, used at the site of the Concrete Work, whether rented from the Contractor or others, including installation, minor repairs and replacements, dismantling, removal, transportation and delivery costs thereof, at rental charges consistent with those prevailing in the area. Contractor shall prepare a list of such rental machinery and equipment with required durations for each piece for Owner's written approval prior to renting each piece. Owner may require Contractor to purchase some or all of such machinery and equipment if to do less salvage value is less than renting.

- 1.8 Cost of premiums for all insurance, which the Contractor is required by the Contract Documents to purchase and maintain and deductibles incurred.
- 1.9 Sales, use or similar taxes related to the Concrete Work and for which the Contractor is liable imposed by any governmental authority.
- 1.10 Permit fees, royalties and deposits lost for causes other than the Contractor's negligence.
- 1.11 Losses and expenses, not compensated by insurance or otherwise, sustained by the Contractor in connection with the Concrete Work, provided they have resulted from causes other than the fault or neglect of the Contractor.
- 1.12 Expenses such as telegrams, long distance telephone calls, telephone service at the site, mobile phone or radio use, expressage, and petty cash items in connection with the Concrete Work.
- 1.13 Cost of removal of all debris.
- 1.14 Costs incurred due to an emergency affecting the safety of persons and property.
- 1.15 Other costs incurred in the performance of the Concrete Work if and to the extent approved in advance in writing by the Owner.
- 1.16 The cost of guaranty or warranty work, not recoverable from subcontractors, vendors or insurance, to the extent of cost savings realized by the Owner and the Contractor (pro rata).
- 1.17 Expense of reproduction of drawings, specifications and other Contract Documents.

COSTS NOT TO BE REIMBURSED

2. The term Cost of the Work shall not include any of the items set forth below.
- 2.1 Salaries or other compensation of the Contractor's personnel at the Contractor's principal office and branch offices, except as indicated in 1.3 above.
- 2.2 Expenses of the Contractor's principal and branch offices other than the field office.
- 2.3 Any part of the Contractor's capital expenses, including interest on the Contractor's capital employed for the Concrete Work.
- 2.4 Overhead or general expenses of any kind, except as may be expressly included above.
- 2.5 Costs due to the negligence of the Contractor or any of its supervisory staff.
- 2.6 The cost of any item not specifically and expressly included in the items described above.
- 2.7 Costs in excess of the Guaranteed Maximum Cost.

H&R BLOCK WORLD HEADQUARTERS
J.E. DUNN PROJECT NOS. 2872, 8910
OCTOBER 1, 2004

[JEDUNN CONSTRUCTION LOGO]

8910 - AMENDMENT #2
EXHIBIT B

| CONTRACT SUMMARY BREAKDOWN: ----- | AUTHORIZED ----- | COST W/FEE ----- | FEE ONLY ----- |
|---|----------------------------|---------------------|-------------------|
| PRE-SITE-SELECTION COSTS- JOB NO. 2872 | | | |
| 1. Amendment No. 1 - Pre-Site-Selection Costs | ??/??/04 | \$441,081 | \$10,296 |
| | SUBTOTAL | \$441,081 | \$10,296 |
| BASE PROJECT- JOB NO. 8910 | | | |
| 2. Amendment No.2- Fee Structure | ??/??/04 | \$ 0 | \$ 0 |
| | SUBTOTAL- | \$ 0 | \$ 0 |
| | GRAND TOTAL - ALL JOB NOS. | \$441,081 | \$10,296 |

AMENDMENT NO. 3
TO THE
AGREEMENT
BETWEEN OWNER AND DESIGN BUILDER

MODIFICATION AND AMENDMENT

Made as of the 1st day of January in the year 2003

BETWEEN the Owner: H&R Block Tax Services, Inc.
 4400 Main
 Kansas City, MO 64111

and the Design Builder: J.E. Dunn Construction Company
 929 Holmes
 Kansas City, MO 64106

The Project: H&R Block World Headquarters
 J.E. Dunn Project No. 8910

The Architect: CDFM(2) Architecture, Inc.
 1015 Central
 Kansas City, MO 64105

The Owner and the Design Builder agree as set forth below:

WHEREAS, the Owner and Design Builder have previously agreed to amend their Agreement to establish scope, costs, schedule, and Contract Documents, and

WHEREAS, the Owner and Design Builder have previously entered into Amendments as reflected in Exhibit B, and

WHEREAS, the Owner and Design Builder now wish to so amend their Agreement,

NOW, THEREFORE, in consideration of the mutual covenants and conditions contained herein, the Parties hereto agree to the Amendment of their Contract dated May 5, 2003, as set forth below:

1. This Amendment No. 3 is to authorize Preconstruction Services for the period of January 1, 2004 to September 15, 2004 and Design Services from schematic design through construction administration.
2. In accordance with Paragraph 14.1, the Notice to Proceed for the Work of this Amendment shall be the date of this Amendment and the Substantial Completion date shall be established upon the mutual agreement of the Parties.

3. In accordance with Paragraph 13.1.1 of the Agreement, the Guaranteed Maximum Price for the Work of this Amendment shall be increased by Seven Million Five Hundred Twenty Seven Thousand Six Hundred Eighteen Dollars (\$7,527,618.00) for a revised GMP of Seven Million Nine Hundred Sixty Eight Thousand Six Hundred Ninety Nine Dollars (\$7,968,699.00), as more fully set forth in Exhibit B, attached hereto.

This interim GMP is established on the premise that the budget for this Project is \$121,272,000 and that the Architect's Fee, whose calculation is established by the Agreement Between Owner and Design/Builder, is \$7,355,421.00. Prior to determination for the final GMP for the Project, the Architect's Fee shall be recalculated pursuant to the terms of the Agreement.

Pursuant to Paragraph 13.1.3, the Design Builder's Fee for the work of this Amendment shall be increased by: One Hundred Seventy Two Thousand One Hundred Ninety Seven Dollars (\$172,197.00), for a revised fee of One Hundred Eighty Two Thousand Four Hundred Ninety Three Dollars (\$182,493.00).

4. Preliminary calculations of Design Fees are attached hereto as Exhibit A (3 pages).

This Modification and Amendment entered into as of the day and year first written above.

OWNER:

H&R BLOCK TAX SERVICES, INC.

By: /s/ Timothy R. Mertz

DESIGN BUILDER:

J.E. DUNN CONSTRUCTION COMPANY

By: /s/ Casey S. Halsey

Casey S. Halsey
Senior Vice President

EXHIBIT A

H&R BLOCK WORLD HEADQUARTERS
 J.E. DUNN PROJECT NO. 8910
 JULY 7, 2004

BUDGET

121,272,000 Subtotal Construction Budget Without D/B Fees
 Delete Parking Level 6
 Total Construction Budget Without D/B Fees

FEE CALCULATION

1) (Cost + G.C.'s) x 2.33% = JED Base Fee
 2) (Cost + G.C.'s + JED Base Fee) x 5.67% = CDFM2 Fee
 3) (CDFM2 Fee x 2.33%) + JED Base Fee = JED Total Fee

1) 121,272,000 x 2.33% = 2,825,638
 2) (121,272,000 + 2,825,638) x 5.67% = 7,036,336
 3) (7,036,336 x 2.33%) = 163,947 + 2,825,638 = 2,989,584

121,272,000 Total Construction Budget Without D/B Fees
 7,036,336 CDFM2 Fee

2,989,584 JED Total Fee
 131,297,920 Total Cost With D/B Fees

| | |
|---------------------------|----------------|
| Step 1. Base Cost w/o Fee | \$ 121,272,000 |
| x 2.33% | \$ 2,825,638 |
| ----- | ----- |
| Cost w/JED Fee | \$ 124,097,638 |

| | |
|------------------------|----------------|
| Step 2. Cost w/JED Fee | \$ 124,097,638 |
| x 5.67% | \$ 7,036,336 |
| ----- | ----- |
| Arch. Fee Amount. | \$ 7,036,336 |

| | |
|---------------------------|----------------|
| Step 2. Base Cost w/o Fee | \$ 121,272,000 |
| + Arch. Fee Amount. | \$ 7,036,336 |
| ----- | ----- |

| | |
|----------------------|-----------------|
| Sum of Base w/ Arch. | \$ 128,308,336 |
| x 2.33% | \$ 2,989,584.23 |
| ----- | ----- |
| JED Fee | \$ 2,989,584 |

| | |
|-------------------|----------------|
| Step 4. Base Cost | \$ 121,272,000 |
| + CDFM2 Fees | \$ 7,036,336 |
| + JED Fees | \$ 2,989,584 |
| ----- | ----- |
| Total Cost | \$ 131,297,920 |

J.E. DUNN PRECONSTRUCTION

Project No.8910

| |
|---|
| 1120 = 53499 |
| 1122 = 3383 |
| 1124 = 764 |
| 1601 = 0 |
| 30100 = 360 |
| ----- |
| 58006 Total Project No.8910 (1/01/04-6/30/04) |

Project No.2872

| |
|--|
| 1101 = 36160 |
| 1120 = 109396 |
| 1121 = 9012 |
| 1122 = 1163 |
| 40000 = 10348 |
| ----- |
| 166079 Total Project No.2872 (1/01/04-6/30/04) |

Subtotal Preconstruction Services (1/01/04-6/30/04)

| |
|--------------------------------|
| 58006 Project No.8910 |
| 166079 Project No.2872 |
| ----- |
| 224085 Total (1/01/04-6/30/04) |

Subtotal Preconstruction Services (7/01/04-9/15/04)

2.5 Months x 38,000/Mo = 95,000

Reimbursables

35,000 (1/01/04 - 9/15/05)

JED Fee

| | |
|-----------|---|
| 319,085 | JED Preconstruction Services (224,085 + 95,000) |
| 7,036,336 | CDFM2 Fees |
| 35,000 | Reimbursables |

7390421
x2.33%

172,197 JED Fee on Preconstruction Services

EXHIBIT A

H&R BLOCK WORLD HEADQUARTERS
 J.E. DUNN PROJECT NO. 8910
 JULY 7, 2004

BUDGET

Construction Cost w/JED Fee = \$124,097,638
 CDFM2 Fee = \$ 7,036,336

Core/Shell = \$ 90,000,000
 Tenant Finish = \$ 34,097,638

 \$124,097,638

CORE/SHELL

Estimated Construction Cost \$90,000,000
 CDFM2 Fee % 5.67%

 Total Fee \$ 5,103,000

| PHASE - - - - - | % OF FEE ----- | FEE ----- |
|-----------------------------|-------------------|--------------|
| Schematic Design | 15% | 765,450 |
| Design Development | 20% | 1,020,600 |
| Construction Documents | 40% | 2,041,200 |
| Bidding | 5% | 255,150 |
| Construction Administration | 20% | 1,020,600 |
| | | ----- |
| | | 5,103,000 |

TENANT FINISH

Estimated Construction Cost \$34,097,638
 CDFM2 Fee % 5.67%

 Total Fee 1,933,336

| PHASE - - - - - | % OF FEE ----- | FEE ----- |
|-----------------------------|-------------------|--------------|
| Schematic Design | 15% | 290,000 |
| Design Development | 20% | 386,667 |
| Construction Documents | 40% | 773,334 |
| Bidding | 5% | 96,667 |
| Construction Administration | 20% | 386,667 |
| | | ----- |
| | | 1,933,336 |

H&R BLOCK WORLD HEADQUARTERS
J.E. DUNN PROJECT NOS. 2872, 8910
OCTOBER 1, 2004

[JEDUNN CONSTRUCTION LOGO]

8910- AMENDMENT #3
EXHIBIT B

| CONTRACT SUMMARY BREAKDOWN: ----- | AUTHORIZED ----- | COST W/FEE ----- | FEE ONLY ----- |
|--|---------------------|---------------------|-------------------|
| PRE-SITE-SELECTION COSTS- JOB NO. 2872 | | | |
| 1. Amendment No. 1 - Pre-Site-Selection Costs | ??/??/04 | \$ 441,081 | \$ 10,296 |
| SUBTOTAL | | \$ 441,081 | \$ 10,296 |
| BASE PROJECT- JOB NO. 8910 | | | |
| 2 Amendment No. 2- Fee Structure | ??/??/04 | \$ 0 | \$ 0 |
| 3 Amendment No. 3- Preconstruction and Design Services | ??/??/04 | \$7,527,618 | \$172,197 |
| SUBTOTAL- | | \$7,527,618 | \$172,197 |
| GRAND TOTAL - ALL JOB NOS. | | \$7,968,699 | \$182,493 |

AMENDMENT NO. 4
TO THE
AGREEMENT
BETWEEN OWNER AND DESIGN BUILDER

MODIFICATION AND AMENDMENT

Made as of the 19th day of August in the year 2004

BETWEEN the Owner: H&R Block Tax Services, Inc.
 4400 Main
 Kansas City, MO 64111

and the Design Builder: J.E. Dunn Construction Company
 929 Holmes
 Kansas City, MO 64106

The Project: H&R Block World Headquarters
 J.E. Dunn Project No. 8910

The Architect: CDFM(2) Architecture, Inc.
 1015 Central
 Kansas City, MO 64105

The Owner and the Design Builder agree as set forth below:

WHEREAS, the Owner and Design Builder have previously agreed to amend their Agreement to establish scope, costs, schedule, and Contract Documents, and

WHEREAS, the Owner and Design Builder have previously entered into Amendments as reflected in Exhibit B, and

WHEREAS, the Owner and Design Builder now wish to so amend their Agreement,

NOW, THEREFORE, in consideration of the mutual covenants and conditions contained herein, the Parties hereto agree to the Amendment of their Contract dated May 5, 2003, as set for the below:

1. This Amendment No. 4 is to authorize Commencement of the Mass Excavation and Shoring scopes of work.
2. In accordance with Paragraph 14.1, the Notice to Proceed for the Work of this Amendment shall be the date of this Amendment and the Substantial Completion date shall be established upon the mutual agreement of the Parties.

3. In accordance with Paragraph 13.1.1 of the Agreement, the Guaranteed Maximum Price shall be increased by Four Million Two Hundred Seventy Seven Thousand Eight Hundred Ninety Seven Dollars (\$4,277,897.00) for the Work of this Amendment for a revised GMP of Twelve Million Two Hundred Forty Six Thousand Five Hundred Ninety Six Dollars (\$12,246,596.00), as in Exhibit C, attached hereto.

Pursuant to Paragraph 13.1.3, the Design Builder's Fee for the work of this Amendment shall be increased by: Ninety Seven Thousand Four Hundred Five Dollars (\$97,405.00), for a revised fee of Two Hundred Seventy Nine Thousand Eight Hundred Ninety Eight (\$279,898.00).

4. Pursuant to Paragraph 1.1.1. of the Agreement, the contract documents upon which the GMP stated in Item No. 3 above is based are amended to include those as stated in Exhibit A hereto.

This Modification and Amendment entered into as of the day and year first written above.

OWNER:

H&R BLOCK TAX SERVICES, INC.

By: /s/ Timothy R. Mertz

DESIGN BUILDER:

J.E. DUNN CONSTRUCTION COMPANY

By: /s/ Casey S. Halsey

Casey S. Halsey
Senior Vice President

EXHIBIT A
 To Amendment No. 4
 H&R BLOCK HEADQUARTERS
 J.E. DUNN PROJECT NO. 8910

| | Plan No. ----- | Description ----- | Date ---- |
|---------------|-------------------|---------------------------------|--------------|
| Survey | 1 | Boundary Sheet | 3/31/04 |
| | 2 | Topographic Sheet | 4/9/04 |
| Civil | C1.0 | Land Disturbance Cover | 6/25/04 |
| | C1.1 | Land Disturbance Plan | 6/25/04 |
| Architectural | A070 | Site Plan | 6/25/04 |
| | A100 | Garage P-5 Plan | 6/25/04 |
| | A100a | Garage P-6 Alternate Plan | 6/25/04 |
| | A101 | Garage P-4 to P-2 Plan | 6/25/04 |
| | A102 | Garage P-1 Plan | 6/25/04 |
| | A103 | Service Floor Plan | 6/25/04 |
| | A200-A204 | Exterior Elevation | 6/25/04 |
| Structural | S050 | General Notes | 6/25/04 |
| | S051 | Mass Excavation Plan - Base Bid | 6/25/04 |
| | S050A | Mass Excavation Plan - Alt. #1 | 6/25/04 |
| | S060-S061 | Wall Elevations | 6/25/04 |
| | S070 | Wall Sections - Base Bid | 6/25/04 |
| | S070A | Wall Sections - Alt. #1 | 6/25/04 |

Mass Excavation Project Manual dated June 25, 2004

End of Exhibit A

EXHIBIT C

[JEDUNN CONSTRUCTION LOGO]

July 22, 2004

Ms. Karen Orosco
H&R Block Tax Services, Inc.
4400 Main Street
Kansas City, MO 64111

Re: H&R Block World Headquarters
J.E. Dunn Project No. 8910
Scope Change Proposal No. 1

Dear Karen:

J.E. Dunn Construction Company is submitting this Scope Change Proposal No. 1 for your review and approval. This Scope Change Proposal provides information on the Mass Excavation and Shoring scope of work. Please note the following items:

THIS PROPOSAL IS TO AUTHORIZE COSTS ASSOCIATED WITH THE MASS EXCAVATION AND SHORING SCOPE OF WORK. ATTACHED YOU WILL FIND KIDWELL CONSTRUCTION'S BID AND SUPPORTING DOCUMENTATION, AND J.E. DUNN'S BID ANALYSIS THAT SHOWS KIDWELL CONSTRUCTION WAS THE LOW BIDDER. THE COST FOR THIS WORK WITHOUT FEE TO BE SET UP AS AN AMENDMENT TO OUR CONTRACT IS \$4,180,492. IT SHOULD ALSO BE NOTED THAT J.E. DUNN HAS NEGOTIATED WITH THE CITY FOR REMOVAL OF ALL NON-CONTAMINATED DEBRIS, STRUCTURES AND OBSTRUCTIONS THAT WILL RESULT IN A CITY REIMBURSEMENT TO H&R BLOCK OF \$575,859. CONTAMINATED MATERIALS DISCOVERED ON SITE WILL BE DEALT WITH ON A UNIT COST BASIS AND WILL RESULT IN ADDITIONAL REIMBURSEMENT FROM THE CITY. THIS WILL RESULT IN A NET COST WITHOUT FEE TO H&R BLOCK FOR THE MASS EXCAVATION AND SHORING SCOPE OF WORK OF \$3,604,633 WHICH IS APPROXIMATELY \$93,897 UNDER THE PREVIOUSLY ESTIMATED COST FOR THIS WORK.

The total cost for the above scope of work is \$4,277,897. The Project Schedule is unchanged by the work of this scope change proposal and the substantial completion date will be established in a later amendment. The general conditions and contingency allowance associated with this work will also be set up in a separate amendment.

Please provide your written approval of this proposal so we may issue the appropriate contract and proceed with the work of this scope change proposal by signing in the space

Sincerely,

J.E. DUNN CONSTRUCTION COMPANY

/s/ Trent Wachsnicht

Trent Wachsnicht

TW/vh

Enclosure

cc: David Wick - Hines
Lynn Newkirk - J.E. Dunn
Vern Orpin - J.E. Dunn
File

Approved: /s/ Karen A. Orosco

Date: 8/24/04

Estimator: trenwa Job: 8910 H&R Block World Headquarters Est: 2 Mass Excavation & Shoring
 Wage Rate KANSAS/KC METRO/2004/STD 4/1/04 - 3/31/05

| Division | Description | Subcontractor Name | Labor | MOC | Subcont | Allow | Total |
|---------------------|-------------|------------------------|-------|-----|-----------|-----------|-----------|
| 02300 | EARTHWORK | JIM KIDWELL CONSTR INC | 0 | 0 | 4,180,492 | 0 | 4,180,492 |
| Subtotal Before Fee | | | 0 | 0 | 4,180,492 | 0 | 4,180,492 |
| | | | | | | Fee 2.33% | 97,405 |
| Grand Total | | | | | | | 4,277,897 |

SECTION 02260- EXCAVATION SUPPORT AND PROTECTION
 SECTION 02300- EARTHWORK

| TABULATION | KIDWELL | PURSELL | GEORGE SHAW | RIEKE |
|--|----------------------------|--------------------------------|------------------------------|----------------------------------|
| | Chip Zuck (816)537-7677 | Gary Shoemaker 816 792-1031 | Dan Beutler (816)231-8200 | Ernie Jungmeyer (913)631-7111 |
| BASE BID EXCAVATION AND RETENTION SYSTEM | \$4,180,492 | \$4,370,000 | \$4,750,000 | \$5,897,000 |
| MBE Participation | \$ 501,659 | \$ 457,360 | \$ 855,000 | \$ 0 |
| WBE Participation | \$ 0 | \$ 0 | \$ 0 | \$ 0 |
| COST BREAKOUT (FIRST 12') | \$1,989,500 | \$1,311,000 | \$1,009,700 | \$1,360,000 |
| EXCAVATION | \$ 562,747 | \$ 707,400 | \$ 406,100 | \$ 560,000 |
| SHORING | \$1,426,753 | \$ 603,600 | \$ 603,600 | \$ 800,000 |
| MBE Participation | \$ 0 | \$ 137,210 | \$ 0 | \$ 0 |
| WBE Participation | \$ 0 | \$ 0 | \$ 0 | \$ 0 |
| ALTERNATE #1 (BONDS) | 47,250 | 43,700 | 57,000 | 90,000 |
| SHORING CONTRACTOR | Hayes | Hayes | Hayes | Schnabel |
| UNIT PRICES | | | | |
| 1) Unsatisfactory Earth Excavation | 17 | 20 | 8 | 13 |
| 2) Rock Excavation | 39.5 | 35 | 8(excludes export) | 25 |
| 3) Satisfactory Soil Placement | 17 | 27.5 | 12 | N/A |
| 4) Structural Excavation | 24 | 30 | 12.5 | 50 |
| 5) Hock Bolts | 517 | 550 | 575 | 750 |
| 6) Buried Foundation Removal | | | | |
| A. Concrete, Bricks, and Stones | | | | |
| 1. 500cy and under | 25 | 40 | 6 | 60 |
| 2. Over 500cy to 1,500cy | 22 | 40 | 4.5 | 50 |
| 3. Over 1,500cy | 20 | 40 | 3 | 40 |
| B. Demolition debris that includes wood, etc. | | | | |
| 1. 500cy and under | 5 | 60 | 10 | 50 |
| 2. Over 500cy to 1,500cy | 22 | 60 | 7.5 | 40 |
| 3. Over 1,500cy | 20 | 60 | 6 | 35 |
| C. Demolition debris contaminated with asbestos | | | | |
| 1. 500cy and under | N/A | N/A | N/A | N/A |
| 2. Over 500cy to 1,500cy | N/A | N/A | N/A | N/A |
| 3. Over 1,500cy | N/A | N/A | N/A | N/A |
| 7) Special Waste Soil Removal | | | | |
| A. 300 tons and under | N/A | N/A | N/A | N/A |
| B. Over 300 tons and under 1,500 tons | N/A | N/A | N/A | N/A |
| C. Over 1,500 tons | N/A | N/A | N/A | N/A |
| 8) Petroleum Product Liquids | | | | |
| A. 200 gallons and under | N/A | N/A | N/A | N/A |
| B. Over 200 gallons and to 1,000 gallons | N/A | N/A | N/A | N/A |
| C. Over 1,000 gallons | N/A | N/A | N/A | N/A |
| 9) Underground Storage Tank Removal | | | | |
| A. 1000 gallons or less | N/A | N/A | N/A | N/A |
| B. Over 1,000 gallons and to 4,000 gallons | N/A | N/A | N/A | N/A |
| C. Over 4,000 gallons | N/A | N/A | N/A | N/A |
| CALCULATION | | | | |
| LOW BASE BID | \$ 4,180,492 KIDWELL | | | |
| MBE% | 12.00% | | | |
| WBE% | 0.00% | | | |
| Low Base Bid | \$ 4,180,492 | | | |
| City Reimbursement for Top 12' of Excavation | \$ 575,859 | | | |
| TOTAL COST TO PROJECT | \$3,604,6333 | | | |
| Total Cost To Project | \$ 3,604,633 | | | |
| Total Estimated Cost | \$ 3,698,530 | | | |
| Variance | (\$ 93,897) Under Budget | | | |

SECTION 02260- EXCAVATION SUPPORT AND PROTECTION
 SECTION 02300- EARTHWORK

| | KIDWELL ----- Chip Zuck (816) 537-7677 | PURSELL ----- Gary Shoemaker (816) 792-1031 | GEORGE SHAW ----- Dan Beutler (816) 231-8200 | RIEKE ----- Ernie Jungmeyer (913) 631-7111 |
|--|---|--|---|---|
| SCOPE QUESTIONS ----- | | | | |
| Acknowledge and Incorporate Addendum #1 | Y | Y | Y | |
| Acknowledge and Incorporate Addendum #2 | Y | Y | N | |
| Site Visit | Y | Y | Y | |
| Tax included | Y | Y | Y | |
| Insurance Included | Y | Y | Y | |
| Permits Included | Y | Y | ? | |
| Bond Included | Y | Y | ALTERNATE | |
| Bonding Company | C.N.A. | St Paul | N. American Spec. | |
| MBE Participation | 12% | 10% | 18% | |
| MBE Firm | Redford | Anderson Trucking | ? | |
| WBE Participation | N | N | N | |
| WBE Firm | N/A | N/A | N/A | |
| Acknowledge 10% Retention | Y | Y | Y | |
| Agree to Sign Contract w/Scope of Work Included in Specifications | Y | Y | Y | |
| Complete Earth Retention System Including Design | Y | Y | Y | |
| Earth Retention System Design Signed & Sealed By Registered MO Engineer | Y | Y | Y | |
| Does Earth Retention System Include Construction Loads | Y | Y | Y | |
| Does Earth Retention System Include Utility Penetrations | Y | N- \$8250 ea | Y | |
| Protection, Isolation, Vibration Control @ Utilities in Alley | Y | Y | Y | |
| Lay-back @ Utilities in Alley | Y | Y | Y | |
| Include Lagging of Drilled Piers Per Detail 4/S062 | Y | Y | ? | |
| Shoring Removal and Backfill (Top 4') | Y | Y | Y | |
| Interpretation of "2 inch minimum 8 inch nominal shotcrete" | 4" | 4" | 4" | |
| Incorporated Soils Report Recommendations | Y | Y | Y | |
| Ramp Construction, Maintenance, and Removal | Y | Y | Y | |
| Ramp Relocation as Required | Y | Y | Y | |
| # of Ramp Relocations | 1 | 1 | 1 | |
| Coordination w/Other Trades | Y | Y | Y | |
| Ramp barriers | | | | |
| Did you Develop a Detailed Schedule that Complies w/Provisional Schedule | Y | N | Y | |
| Schedule Includes Weather Days | Y | Y | Y | |
| Work Hours | 6-10HR | 6-8HR | 5-8HR | |
| # of Shifts | 1 OR 2 | 1 | 1 | |
| Equipment Utilization | | | | |
| Include Remobilization Costs as Required | Y | Y | Y | |
| On-Site Safety Rep | Y | Y | Y | |
| Include OSHA Approved Handrail and Toe-Kick System | Y | Y | Y | |
| What is your Handrall plan | | | | |
| Comply w/City Requirements for Dust and Noise Control, and Work Hours | Y | Y | Y | |
| Include Dust Control | Y | Y | Y | |
| Include Traffic Control | Y | Y | N | |
| Include Seismic Monitoring | N | N | N | |
| Include As-builts | Y | N | N | |
| Union Labor | Y | Y-Except MBE | Y | |
| Include Dewatering | Y | Y | Y | |
| Removal and Backfill of Existing Vault @ Gridline N-07 | Y | Y | N | |
| Include 12" AB3 and Asphalt Emulsion | Y | Y | Y | |
| Include Lane Closure permits and fees | Y | Y | Y | |
| Include Street Cleaning & Washout Station | Y | Y | Y | |
| Include blasting | N | N | N | |
| Include layout | Y | Y | Y | |
| Include Preconstruction Survey | Y | N | Y | |
| Include Progress Photos | Y | Y | N | |
| Include Costs for Representation at Project Meetings | Y | Y | Y | |
| Include Snow Removal as Required | Y | N | Y | |
| Include Erosion Control | Y | Y | Y | |
| Utility Consumption Including Water Usage, Meter, and Fees | Y | Y | Y | |
| Backfill Behind Wood Lagging | Y | Y | Y | |
| Protection of Street Utilities, Verification That They are Not Damaged | Y | ? | Y | |
| Demolition Existing Buildings | N | N | N | |
| Were all of you questions answered during the bid process | Y | Y | Y | |
| Have you reviewed JED's contract agreement and resolved disagreements | Y | Y | Y | |
| Did you observe and violations of local codes or conflicts w/plans & specs | N | N | N | |
| Do you understand and comply w/JED's site safety requirements | Y | Y | Y | |

| | | | |
|--|---|---|---|
| Do all construction materials conform to the current KCMO standards | Y | Y | Y |
| Did you include all costs associated with off-site parking | Y | Y | Y |
| Have you reviewed your temporary construction office and storage needs w/JED | Y | Y | Y |
| Do you acknowledge that you are responsible for protection of own M/E | Y | Y | Y |
| Did you include any lab or field testing | N | N | N |

EXHIBIT B

SCOPE OF WORK NO. 02600
MASS EXCAVATION & SHORING PACKAGE
H&R BLOCK HEADQUARTERS
J.E. DUNN PROJECT NO. 8910

Provide all labor, material equipment, supervision and other items necessary to complete the Mass Excavation work as required by the contract documents.

Contract specifically includes, but is not limited to the following:

- 1) Earthwork Section 02300 of the Project Manual. The excavation work is unclassified and includes excavation to grades indicated, regardless of character of material. For base bid purposes, Contractor should assume that there are no underground obstructions or contamination. Since quantities of underground obstructions and contamination can not be defined, the premium cost for this work will be added via separate contract. Premium cost for excavation of underground obstructions and contamination above and beyond soil or rock excavation costs shall not be included in the base bid. (See unit pricing for removal of contaminated or hazardous material and removal of obstructions.)
- 2) Excavation Support and Protection Section 02260 of the Project Manual including but not limited to drilling, setting and grouting of soldier piles, wood lagging, tie-backs with sleeves, grouting and post tensioning, and gunite system installed complete with wire mesh.
- 3) Contractor shall control erosion and siltation for the duration of this scope of work, shall keep the streets clean of mud and debris and provide dust control on a continuous basis as required by the City, the Design/Builder and any other jurisdiction having authority.
- 4) Lagging of piers per Detail 4/S062.
- 5) Utility penetrations through retention systems
- 6) Contractor is responsible for all permits, bonds, insurance and utility consumption including water usage, meter and fees required by the City or any other jurisdiction having authority unless otherwise noted.
- 7) Time is expressly declared to be of essence in completion of the work covered by these Contract Documents and the Contractor will be liable for liquidated damages in the amount of \$500.00/day for delay in completion of the work. Contractor will also be responsible for costs incurred by other contractors as a result of any delays caused by untimely completion of this scope of work. The

HRB - Mass Excavation & Shoring Package
Exhibit B

provisional schedule includes weather days. No time extensions will be granted for weather days.

- 8) All onsite labor is to be performed by Union craftsmen of appropriate trade. Work performed shall be subject to special requirements in Section 00100.
- 9) Layout and staking, both vertical and horizontal, as required for the work, is the responsibility of this Contractor. A benchmark for the project will be provided by others.
- 10) Excavation to be graded to drain to a single point for dewatering. Contractor to install and maintain sediment basin which shall be lowered with the excavation by this Contractor. This Contractor is also responsible for continuous dewatering, including after hours, from groundwater and run-off including snow and ice removal within the excavation as required for the duration of this scope of work.
- 11) Ramp construction, maintenance and removal for cycling of trucks and equipment in and out of excavation. This includes coordination with other trades for access to work and ramp construction for access in and out of the excavation. May include relocation to facilitate footing and foundation installation in the garage.
- 12) Removal and haul off of sidewalks from curblines to excavation line and sloping of grade from curb to excavation.
- 13) Removal and haul off of asphalt paving to approved dumpsite.
- 14) Export of excavated materials per approved truck route plan including traffic control and flagmen as required and permits/certificates for haul routes and dumpsites.
- 15) Place 12" AB3 to elevations shown on plans for garage and tower.
- 16) Fine grade site to +/- 0.1' or as required per the specifications and grading plan. This includes any proof roll testing required for subgrade. Elevations shown on grading plan are to top of excavation. Provide verification at completion of work from independent surveyor that elevations are within tolerance. This survey is not required if this excavator is the successful footings and foundations contractor.
- 17) No material storage on site except as approved by J.E. Dunn's jobsite superintendent. On site materials planned for use as backfill at a later date shall be removed from the project site and imported at the time material is placed.
- 18) Shoring system shall be abandoned in place, removed to a depth of 4' below grade and backfilled after shoring system is no longer required.
- 19) Installation of asphalt emulsion and AB3 per Note #7 Sheet S050.

HRB - Mass Excavation & Shoring Package
Exhibit B

- 20) Backfill behind wood lagging as required per Note #8 Sheet S050.
- 21) Slope excavation away from or provide shoring at existing utility in alley as required to meet schedule.
- 22) Meet tolerances for vertical excavation face as specified and coordinated with shoring scope of work.
- 23) Comply with any City work hour, dust control or noise control restrictions.
- 24) Utilization of MBE/WBE certified firms per Sections 00820 and 00830.
- 25) Provide OSHA approved handrail and toe-kick system at perimeter of excavation including, but not limited to, the elevation change between the garage and the tower excavations.
- 26) Shoring design engineer shall inspect and approve substrate prior to Shot Crete installation. Engineer shall also provide periodic safety inspections of in-place shoring system.
- 27) Remove and backfill existing vault at Gridline N-07.

This scope of work specifically excludes the following:

- 1) Finish grading.
- 2) Backfill unless otherwise noted.
- 3) Excavation for foundations and tower crane bases.
- 4) Demolition of existing buildings.
- 5) Mass excavation permit.
- 6) Right of way encroachment permit.
- 7) Land disturbance permit.
- 8) Construction fencing.
- 9) Seeding of disturbed areas.
- 10) Tekflex installation at shuttle elevator per note #5 sheet S050.

End of Exhibit B

Company KIDWELL

Signature /s/ CHIP ZUCK

Date 7/20/04

HRB - Mass Excavation & Shoring Package
Exhibit B

JE DUNN CONSTRUCTION

DOCUMENT 00400
BID FORM

Owner: H&R Block Tax Services, Inc.
Kansas City, Missouri

Project: H&R BLOCK WORLD HEADQUARTERS

General Contractor: J. E. Dunn Construction Company

Name of Bidder: KIDWELL

Bid Package: EARTHWORK & STORING

| Scope of Work No. _____ | Scope of Work Title _____ |
|----------------------------|------------------------------|
|----------------------------|------------------------------|

Address of Bidder: 15919 S. KIDWELL ROAD
GREENWOOD, MO 64034

Phone of Bidder : 816 537 7677 / 8113 - FAX

The undersigned, having examined the Bidding Documents and the site of the proposed work and being familiar with all the conditions affecting the construction of the proposed project, including the availability of labor, equipment and materials, hereby proposes and agrees to provide and furnish all labor, material, equipment, supervision and other items necessary to perform and complete, in a workmanlike manner, all work required by the Bidding Documents, at the prices stated below. Stated sums include fees, insurance, payroll taxes, materials, labor and all changes that may be levied. This bid also includes all applicable taxes and sales tax.

ADDENDA:

The Bidder hereby acknowledges receipt and inclusion in the Bid Proposal the following addenda (number and date).

Addenda No. 1 Dated July 9th, 2004

Addenda No. 2 Dated July 16th, 2004

Addenda No. ___ Dated _____

Addenda No. ___ Dated _____

Bid Proposal Amounts:

In the following proposals, the amounts shall be shown in both words and figures. In the case of discrepancy between the words and the figures, the words shall govern.

00400-1

H&R Block World Headquarters
Mass Excavation & Shoring Package
J. E. Dunn Project No. 8910
June 25, 2004

JE DUNN CONSTRUCTION

BASE BID (EXCAVATION AND RETENTION SYSTEM)

FOUR MILLION ONE HUNDRED EIGHTY THOUSAND FOUR HUNDRED NINETY TWO DOLLARS
(\$ 4,180,492.00).

MBE Participation Base Bid 12% WBE Participation Base Bid 0

Proposed Retention System Contractor HAYES

COST BREAKOUT (INFORMATION ONLY)

Provide breakout cost from base bid to provide all labor, material, equipment, supervision and other items necessary to complete the first 12 vertical feet of excavation over the entire square footage of the planned excavation. This is for accounting purposes only and this cost shall be included in the base bid amount. \$1989500.

MBE Participation 0 WBE Participation 0

UNIT PRICES

| DESCRIPTION ----- | ADD ----- | DEDUCT ----- |
|--|--------------|-----------------|
| 1. Unsatisfactory Earth Excavation | \$ 17. /cy | \$ NA /cy |
| 2. Rock Excavation - MASS IS UNCLASSIFIED. | \$ 39.50/cy | \$ NA /cy |
| 3. Satisfactory Soil Placement | \$ 17. /cy | \$ NA /cy |
| 4. Structural Excavation | \$ 24. /cy | \$ NA /cy |
| 5. Rock Bolts | \$ 517. /ca | |
| 6. Buried Foundation Removal | | |
| A. Concrete, Bricks and Stones | | |
| 1. 500 cy and under | \$ 25. /cy | |
| 2. Over 500 cy to 1,500 cy | \$ 22. /cy | |
| 3. Over 1,500 cy | \$ 20. /cy | |
| B. Demolition debris that includes wood, etc. | | |
| 1. 500 cy and under | \$ 25. /cy | |
| 2. Over 500 cy to 1,500 cy | \$ 22. /cy | |
| 3. Over 1,500 cy | \$ 20. /cy | |
| C. Demolition debris contaminated with asbestos containing materials | | |
| 1. 500 cy and under | \$ ____/cy | |
| 2. Over 500 cy to 1,500 cy | \$ ____/cy | |
| 3. Over 1,500 cy | \$ ____/cy | |
| 7. Special Waste Soil Removal | | |
| A. 300 tons and under | \$ ____/cy | |
| B. Over 300 tons and under 1,500 tons | \$ ____/cy | |
| C. Over 1,500 tons | \$ ____/cy | |
| 8. Petroleum Product Liquids | | |
| A. 200 gallons and under | \$ ____/gal | |
| D. Over 200 gallons and to 1,000 gallons | \$ ____/gal | |
| E. Over 1,000 gallons | \$ ____/gal | |
| 9. Underground Storage Tank Removal | | |
| A. 1,000 gallons or less | \$ ____/ca | |
| B. Over 1,00 gallons and to 4,000 gallons COST PLUS 15% OF PROFIT | \$ ____/ca | |
| C. Over 4,000 gallons | \$ ____/ca | |

00400-2

H&R Block World Headquarters
Mass Excavation & Shoring Package
J. B. Dunn Project No. 8910
June 28, 2004

JE DUNN CONSTRUCTION

| ALTERNATES ----- | ADD ----- | DEDUCT ----- |
|--|--------------|-----------------|
| Alternate No. 1 - Performance and Payment Bond | \$ 47,250 | \$ n/a |

Changes in work:

Changes in Work shall be as established in the Contract Documents. The following fees shall be used for lump sum pricing and actual cost pricing of additions and deletions to that work included in the Bid, namely:

| | Not to Exceed ----- |
|--|------------------------|
| a. To Contractor for work performed by his own forces | 10% |
| b. To Contractor for work performed by other than his own forces | 5% |
| c. To second tier Subcontractor/Material Supplier for work performed by Subcontractor's own forces | 10% |
| d. To second tier Subcontractor for work performed by other than Subcontractor's own forces | 5% |

Fee includes general requirements, all supervision, overhead and profit.

DATED THIS 20 DAY OF July, 2004

KIDWELL

Name of Firm
15919 S. Kidwell Road
Address
Greenwood Mo. 64034

City and State
By: Signature of Authorized Officer
/s/ Chip Zuck

Chip Zuck (Estimator
Project Manager)

ANGELA M. DAVIS
Notary Public - Notary Seal
STATE OF MISSOURI - Jackson County
My Commission Expires March 1, 2005

SEAL

/s/ Angela M. Davis

Notary Public
County of Jackson
State of Missouri
My Commission Expires: 3/1/05

Attachments: Bidders proposed Bid Package(s) Scope of Work description, signed by Bidder.

00400-3

H & R Block World Headquarters
Mass EXCAVATION & Shoring Package
J.E. Dunn Project No. 8910
June 28, 2004

[JIM KIDWELL CONST. CO. LOGO]

EXCAVATING AND GRADING

FAX

DATE: _____

TO: TRENT W

FROM: CHIP

FAX #: _____

NO. OF PAGES: _____

RE: _____

Urgent For Review Please Comment Please Reply

Cost Breakout for Initial 12' of Excavation & Associated Expenses.

\$562747.

Storing Excluded.

\$562747

15919 S. Kidwell Road, Greenwood, Missouri 64034 ** (816) 537-7677

** (816) 537-8113 Fax

HAYES DRILLING

[HAYES DRILLING, INC. LOGO]

FAX COVER PAGE

TO: JIM KIDWELL CONSTRUCTION COMPANY

ATTN: CHIP

FROM: WILLIAM F. POWERS III, P.E.

DATE: JULY 22, 2004

FAX NO. (816) 537-8113

PAGES SENT: 3 (INCLUDING COVER)

RE: H&R Block World Headquarters
13th & Main; Kansas City, MO.
Temporary Earth Retention System for Mass Excavation

COMMENTS:

Dear Chip:

We are pleased to provide you with the following information that has been revised based upon written comments from J.E. Dunn, for the subject project. Please call me at the office or on my cell phone (816) 215-3048, should you have any questions.

Bill

Cc : file

CORPORATE HEADQUARTERS

15525 S. MAHAFFIE STREET

OLATHE, KANSAS 66062

OFFICE: (913) 768-9500

FAX: (913) 768-9510

FOUNDATION DRILLING AND DESIGN-BUILD EARTH RETENTION SYSTEMS

MEMBER ASSOCIATION OF DRILLED SHAFT CONTRACTORS

HAYES DRILLING

HAYES DRILLING, INC.- 15525 S. MAHAFFIE STREET-OLATHE,KS 66062-913/763-9500
- -FAX 913/763-9510

July 22, 2004

Jim Kidwell Construction Company
15919 South Kidwell Road
Greenwood, MO 64034
Attn : Chip Zuck

RE: H&R Block World Headquarters
13th & Main
Kansas City, MO

Dear Chip;

This letter is written in follow-up to our telephone conversation this morning, regarding specific clarification pertaining to design responsibility, etc. As you are aware, Hayes Drilling, Inc. (HDI) has been in the specialty foundation contracting business for more than 44 years and has successfully completed a large portion of the earth retention projects in the downtown Kansas City area during that period of time .

For this project, HDI will provide a fully engineered, city approved, temporary earth retention system. As part of the system design and more particularly, the horizontal component of support for soldier beam and timber lagging walls, HDI will utilize tieback anchors that will be drilled and grouted into the underlying shale/limestone bedrock formations .HDI will be entirely responsible for determining the required anchor lengths and the corresponding shale/limestone embedment necessary for providing adequate anchor pullout capacities. These capacities will be verified for every tieback anchor by performance/proof tests carried out in accordance with the provisions outlined on the bid documents, as well as in strict accordance with industry accepted standards provided in the PTI Recommendations for Prestressed Rock and Soil Anchors.

We trust that the above information is self-explanatory, but please do not hesitate to contact me should you have any questions or wish to further discuss this matter. We appreciate the opportunity to work with you on this project.

Sincerely,
/s/ William F. Powers III, P.E.
William F. Powers III, P.E.
Vice President
Anchored Geo-Support and Piling Division [STATE OF MISSOURI SEAL]

Cc : file

REGIONAL OFFICE-GEORGETOWN, KENTUCKY 40324 - 502/863-9555-FAX 502/863-1114

FOUNDATION DRILLING AND EARTH RETENTION
MEMBER INTERNATIONAL ASSOCIATION OF FOUNDATION DRILLING

JIM KIDWELL CONSTRUCTION CORP.

EXCAVATING AND GRADING

July 21, 2004

Trent Wachsnicht
J.E.Dunn Construction
929 Holmes
Kansas City, MO 64106

Reference: H and R Block - Additional clarifications

Please consider the following scope of work / pricing information

- Unit price for petroleum based contaminated material is \$38.00 per ton
- Asbestos material not included
- Total price for the initial 12 feet is \$562,747.00

It is our understanding that the buildings on the SW corner will be demolished (including footings, foundation floors and walls). We have not included any money for building or foundation removal.

Our scope of work includes excavation - unclassified to the lines and grades indicated on the plans. This includes concrete, bricks, rocks, wood, plastic and all other debris.

We have seen your schedule and agree to the dates shown. We understand that with projects of this type i.e. location, we may encounter unforeseen conditions. As long as the engineering decisions are made quickly we see no reason to adjust the milestone dates. We would expect most determinations to be made in 24 hours.

Please see attached letter from Bill Powers - Hayes Drilling.

Best regards,
/s/ Chip Zuck

- -----
Chip Zuck
E-mail Chip@jimkidwell.com

15919 South Kidwell Road-Greenwood, Missouri 64034-9439 - (816)537-7677
- -Fax (816) 537-8113

jimkidwell.com

FIRST AMENDMENT TO THIRD AMENDED AND RESTATED
REFUND ANTICIPATION LOAN PARTICIPATION AGREEMENT

THIS FIRST AMENDMENT TO THE THIRD AMENDED AND RESTATED REFUND ANTICIPATION LOAN PARTICIPATION AGREEMENT (this "First Amendment"), dated as of August 20, 2004, is made by and among Block Financial Corporation, a Delaware corporation ("BFC"), Household Tax Masters, Inc., a Delaware corporation ("Tax Masters"), and Household Tax Masters Acquisition Corporation, a Delaware corporation, or its BFC's approved assignee ("HTMAC").

RECITALS

WHEREAS, the parties hereto entered into a Third Amended and Restated Refund Anticipation Loan Participation Agreement, dated as of January 1, 2004 (the "Third Agreement"); and

WHEREAS, the parties hereto desire to amend certain provisions of the Third Agreement as set forth in this First Amendment;

AGREEMENT

NOW, THEREFORE, in consideration of the mutual promises, covenants and agreements set forth below and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties do hereby agree as follows:

1. Capitalized terms used herein and not otherwise defined herein shall have the meanings given to such terms in the Third Agreement.
2. Paragraph 2.5 of the Third Agreement is deleted in its entirety and the following is substituted in lieu thereof:

"2.5 Applicable Percentages. Tax Masters (or any of its Affiliates) shall be the exclusive facilitator of a Refund Anticipation Check Service to customers of Block Offices owned by Block Services, Corporate Franchisees and any of Block Services' Affiliates through the period ending June 30, 2006 (it being understood that this sentence does not supercede or replace the provisions set forth in Section 8.1 of the Second Amended and Restated Refund Anticipation Loan Operations Agreement dated June 9, 2003). The Applicable Percentage for Corporate Pool RALs shall be shall be 49.999999%. The Applicable Percentage for a Major Franchisee Pool RAL shall be 25%. Notwithstanding the foregoing provisions of this Section 2.5, any Applicable Percentage (a) for a particular Tax Period may be such lesser percentage as specified by BFC by giving written notice to Tax Masters and HTMAC on or before September 1 immediately prior to such Tax Period (it being understood that (i)

such lesser percentage shall pertain only to the particular Tax Period for which such notice is given and (ii) if no such notice is given for a particular Tax Period, the Applicable Percentages shall be the percentages as set forth in this Section 2.5), or (b) for any portion of a particular Tax Period shall be reduced to zero if BFC has exceeded its internal funding limit (it being understood that (i) the reduction of the percentage to zero shall only be in effect during the periods of time BFC has exceeded its internal funding limit and (ii) for the periods of time BFC has not exceeded its internal funding limit, the Applicable Percentages shall be the percentages as set forth in this Section 2.5."

3. Except as set forth in this First Amendment, the Third Agreement shall remain in full force and effect and is ratified and confirmed in all other respects.

IN WITNESS WHEREOF, the parties hereto have caused their authorized representatives to execute this First Amendment as of the date set forth above.

BLOCK FINANCIAL CORPORATION

By: /s/ Becky S. Shulman

Name: Becky S. Shulman
Title: Vice President

HOUSEHOLD TAX MASTERS, INC.

By: /s/ Susan E. Artmann

Name: Susan E. Artmann
Title: Vice President

HOUSEHOLD TAX MASTERS
ACQUISITION CORPORATION

By: /s/ Susan E. Artmann

Name: Susan E. Artmann
Title: Treasurer and CFO

2004 AMENDMENT TO SECOND AMENDED AND RESTATED
REFUND ANTICIPATION LOAN OPERATIONS AGREEMENT

NOTE: CERTAIN MATERIAL HAS BEEN OMITTED FROM THIS AGREEMENT PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT UNDER RULE 24B-2. THE LOCATIONS OF THESE OMISSIONS ARE INDICATED THROUGHOUT THE AGREEMENT BY THE FOLLOWING MARKINGS: [***].

THIS 2004 AMENDMENT TO THE SECOND AMENDED AND RESTATED REFUND ANTICIPATION LOAN OPERATIONS AGREEMENT dated as of August 20, 2004, (the "Amendment"), is made by and among H & R Block Services, Inc., a Missouri corporation ("Block Services"), on behalf of itself and in regard to its subsidiaries, H & R Block Tax Services, Inc., a Missouri corporation ("Block Tax Services"), HRB Royalty, Inc., a Delaware corporation ("Royalty," and together with Block Services and Block Tax Services, the "Block Companies"); Household Tax Masters Inc., a Delaware corporation ("Tax Masters"), for itself or in its capacity as servicer for the RAL Originator (as such term is defined herein) where appropriate under the circumstances, and Beneficial Franchise Company Inc., a Delaware corporation ("Beneficial Franchise," and together with Tax Masters, the "Household Companies").

RECITALS

WHEREAS, the parties hereto entered into that certain Amended and Restated Refund Anticipation Loan Operations Agreement dated January 3, 2003;

WHEREAS, the parties hereto entered into a Second Amended and Restated Refund Anticipation Loan Operations Agreement dated June 9, 2003 (the "Agreement")

WHEREAS, the parties desire to amend certain terms of the Agreement.

NOW, THEREFORE, in consideration of the mutual promises, covenants and agreements set forth below and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties do hereby agree as follows:

1. Paragraph 5.4, RAC License Fee, is deleted in its entirety and the following substituted in lieu thereof:

"5.4 RAC License Fee.

(a) 2005 Tax Period. Tax Masters as servicer for the RAL Originator shall cause to be paid to Block Services a license fee [***]calculated in accordance with the following schedule for each RAC issued by the RAL Originator pursuant to this Agreement between January 1,

2005 and October 15, 2005 (for purposes of this section, the "2005 Tax Period") [***].

(b) 2006 Tax Period. Except as provided below, Tax Masters as servicer for the RAL Originator shall cause to be paid to Block Services a license fee [***], calculated in accordance with the following schedule for each RAC issued by the RAL Originator pursuant to this Agreement during the 2006 Tax Period [***].

(c) Payment Dates. On or before April 30, 2005 (or the last business day of such month if April 30 is a non-business day), Tax Masters shall pay Block Services [***].

(d) Payments for Direct Deposit RACs to IRA or Auto Investor accounts and Denied RALs. [***]

(e) Method of Payment. The license fee described in this Section 5.4 (the "RAC License Fee") shall be paid by credit to Block Services' account by ACH credit to the appropriate Block Office's company account."

2. Paragraph 6.2(d) is amended by adding the following to the end of the paragraph:

[***]

3. Except as set forth in this Amendment, the Agreement shall remain in full force and effect and is ratified and confirmed in all other respects.

IN WITNESS WHEREOF, the parties hereto have caused their authorized representatives to execute this Amendment as of the effective date set forth above.

HOUSEHOLD TAX MASTERS, INC.

By: /s/ Susan E. Artman

Name: Susan E. Artman
Title: Vice President

BENEFICIAL FRANCHISE COMPANY, INC.

By: /s/ Susan E. Artman

Name: Susan E. Artman
Title: Vice President

H&R BLOCK SERVICES, INC.

By: /s/ Timothy C. Gokey

Name: Timothy C. Gokey
Title: President

H&R BLOCK TAX SERVICES, INC.

By: /s/ Timothy C. Gokey

Name: Timothy C. Gokey
Title: President

HRB ROYALTY, INC.

By: /s/ Rosalie A. Kenney

Name: Rosalie A. Kenney
Title: President

H&R BLOCK, INC.
1989 STOCK OPTION PLAN FOR OUTSIDE DIRECTORS
(AS AMENDED)

1. PURPOSES. The purposes of this 1989 Stock Option Plan for Outside Directors are to attract and retain experienced and qualified directors who are not employees of the Company or any Subsidiary of the Company, and to secure for the Company and its shareholders the benefits of stock ownership in the Company by those directors.

2. DEFINITIONS.

(a) "Board of Directors" shall mean the board of directors of the Company or any Subsidiary of the Company, as the case may be.

(b) "Common Stock" shall mean the common stock, without par value, of the Company.

(c) "Company" shall mean H&R Block, Inc., a Missouri corporation.

(d) "Director" shall mean a member of the Board of Directors of the Company or a member of the Board of Directors of any Subsidiary of the Company, as the case may be.

(e) "Outside Director" shall mean a member of the Board of Directors of the Company or any Subsidiary of the Company who is not an employee of the Company on the date of grant of the Stock Option. As used herein, "employee of the Company" means any full-time employee of the Company, its subsidiaries and their respective divisions, departments and subsidiaries and the respective divisions, departments and subsidiaries of such subsidiaries who is employed at least thirty-five (35) hours a week; provided, however, it is expressly understood that an employee of the Company does not include independent contractors or other persons not otherwise employed by the Company or any Subsidiary of the Company but who provide legal, accounting, investment banking or other professional services to the Company or any Subsidiary of the Company.

(f) "Plan" shall mean this 1989 Stock Option Plan for Outside Directors, as the same may be amended from time to time.

(g) "Recipient" shall mean an Outside Director of the Company or any Subsidiary of the Company who has been granted a Stock Option under the Plan or any person who succeeds to the rights of such Outside Director under this Plan by reason of the death of such Outside Director.

(h) "Stock Option" shall mean the right to purchase, upon exercise of a Stock Option granted under this Plan, shares of the Common Stock. Such Stock Options are non-statutory stock options and are not intended to be "incentive stock options" as defined in the Internal Revenue Code of 1986, as amended.

(i) "Subsidiary of the Company" shall mean a subsidiary of the Company, its divisions, departments, and subsidiaries and the respective divisions, departments and subsidiaries of such subsidiaries.

3. ADMINISTRATION OF THE PLAN. The Plan may be administered by the Company's Board of Directors or an Option Committee (the "Committee"), as the Board of Directors of the Company may in its sole discretion decide. All Outside Directors shall be ineligible to vote upon any

matter concerning the Stock Options including adoption of this Plan. The Committee, if it is established by the Company's Board of Directors to administer the Plan, shall consist of directors of the Company who are not Outside Directors, to be appointed by and to serve at the pleasure of the Board of Directors of the Company. A majority of the Committee members shall constitute a quorum and the acts of a majority of the members present at any meeting at which a quorum is present, or acts approved in writing by all members of the Committee, shall be valid acts of the Committee. All references herein to the Committee shall be deemed to mean any successor to the Committee, however designated, or the Board of Directors of the Company if the Board has not approved a Committee.

The Committee shall have full power and authority to construe, interpret and administer the Plan and, subject to the powers herein specifically reserved to the Company's Board of Directors and subject to the other provisions of this Plan, to make determinations which shall be final, conclusive and binding upon all persons, including, without limitation, the Company, the shareholders of the Company, the Board of Directors, the Recipients and any persons having any interest in any Stock Options which may be granted under this Plan. The Committee shall impose such additional conditions upon Stock Options granted under this Plan and the exercise thereof as may from time to time be deemed necessary or advisable, in the opinion of counsel to the Company, to comply with applicable laws and regulations. The Committee from time to time may adopt rules and regulations for carrying out the Plan and written policies for implementation of the Plan. Such policies may include, but need not be limited to, the type, size and terms of Stock Options to be granted to Outside Directors of the Subsidiaries of the Company and the conditions for payment of Stock Options by Recipients.

The initial Committee shall consist of Henry W. Bloch, Chairman and Chief Executive Officer of the Company, Jerome B. Grossman, Vice Chairman of the Company, and Thomas M. Bloch, President of the Company.

4. ABSOLUTE DISCRETION. The Committee may, in its sole and absolute discretion, from time to time during the continuance of the Plan, (i) determine which Outside Directors of any Subsidiary of the Company shall be granted Stock Options under the Plan, (ii) grant Stock Options to any Outside Directors of any Subsidiary of the Company so selected, (iii) determine the type, date of grant, size and terms of Stock Options to be granted to Outside Directors of any Subsidiary of the Company (subject to Sections 7, 9 and 10 hereof, as the same may be hereafter amended), (iv) determine the terms other than the date of grant, size and stock option price of Stock Options granted pursuant to Section 6 hereof to Outside Directors of the Company, (v) place conditions or restrictions on the receipt of Stock Options by Outside Directors of any Subsidiary of the Company or on the payment or exercise of any Stock Options, and (vi) do all other things necessary and proper to carry out the intentions of this Plan.

5. ELIGIBILITY. Stock Options may be granted to any Outside Director; however, subject to Section 6 hereof, no Outside Director or other person shall have any claim or right to be granted a Stock Option under the Plan. No member of the Committee (other than an ex officio member) shall be eligible for grants of Stock Options under the Plan.

6. PRESCRIBED STOCK OPTIONS FOR OUTSIDE DIRECTORS OF THE COMPANY. During the continuance of the Plan, a Stock Option to purchase an aggregate of 4,000 shares of Common Stock shall be granted on each date of grant specified in this Section 6 to each Outside Director of the Company serving as such on such date of grant. Stock Options specified in this Section 6 shall be granted on September 11, 1991, and on June 30 of each year thereafter in which the Plan is in effect. The stock option price of each share of Common Stock subject to a Stock Option granted pursuant to this Section 6 shall be determined in accordance with Section 9 hereof.

Outside Directors of the Company shall not be granted Stock Options pursuant to the Plan other than as specified in this Section 6, provided that no Stock Options granted pursuant to this Plan prior to September 11, 1991, shall be invalidated or otherwise affected by the provisions of this Section 6. This Section 6 shall not apply to Outside Directors of Subsidiaries of the Company who are not also Outside Directors of the Company on the date of grant.

7. STOCK SUBJECT TO THE PLAN. The total number of shares of Common Stock issuable under this Plan may not at any time exceed 800,000 shares, subject to adjustment as provided in Sections 14 and 15 hereof. Shares of Common Stock not actually issued pursuant to Stock Options shall be available for future Stock Options. Shares of Common Stock to be delivered or purchased under the Plan may be either authorized but unissued Common Stock or treasury shares.

8. VESTING REQUIREMENTS. The Committee may determine that all or a portion of a Stock Option shall be vested at such times and upon such terms as may be selected by it. All Stock Options shall expire as to all of their unexercised shares ten years after the date of their grant.

9. STOCK OPTION PRICE. The purchase price per share of Common Stock under each Stock Option granted hereunder shall be equal to the last reported sale price, regular way, for the Common Stock on the New York Stock Exchange on the date of grant (or, if said date of grant falls on a non-business day, then on the next preceding business date on which the stock is quoted) of such Stock Option.

10. PAYMENT OF STOCK OPTION PRICE. Payment for exercise of any Stock Option granted hereunder shall be made (a) in cash, or (b) by delivery of Common Stock having a market value equal to the aggregate option price, or (c) by a combination of payment of cash and delivery of Common Stock in amounts such that the amount of cash plus the market value of the Common Stock equals the aggregate option price.

11. CONTINUATION AS DIRECTOR. The Committee shall require that a Recipient be an Outside Director at the time a Stock Option is granted and may require that a Recipient be an Outside Director at the time a Stock Option is exercised. The Committee may provide for the termination of an outstanding Stock Option if a Recipient ceases to be an Outside Director and may establish such other provisions with respect to the termination or disposition of a Stock Option on the death or retirement of a Recipient as it, in its sole discretion, deems advisable. The Committee shall have the sole power to determine the date of any circumstances which shall constitute cessation as a Director and to determine whether such cessation is the result of retirement, death or any other reason.

12. REGISTRATION OF STOCK. No Stock Option may be exercised at any time when its exercise or the delivery of shares of Common Stock or other securities thereunder would, in the opinion of counsel for the Company, be in violation of any state or federal law, rule or ordinance, including any state or federal securities laws or any regulation or ruling of the Securities and Exchange Commission. If at any time counsel for the Company shall determine that qualification or registration under any state or federal law of the shares of Common Stock or other securities thereby covered, or the consent or approval of any governmental regulatory body, is necessary or desirable as a condition of or in connection with the exercise of such Stock Option or the purchase of shares thereunder, the Stock Option may not be paid or exercised in whole or in part unless and until such qualification, registration, consent or approval shall have been effected or obtained free of any conditions such counsel deems unacceptable.

13. NON-ASSIGNABILITY. No Stock Option granted pursuant to the Plan shall be transferable or assignable by the Recipient other than by will or the laws of descent and distribution or pursuant to a qualified domestic relations order as defined by the Internal Revenue Code of

1986, as amended, or Title I of the Employee Retirement Security Act, or the rules thereunder. During the lifetime of the Recipient a Stock Option granted pursuant to the Plan shall be exercisable only by the Recipient.

14. DILUTION OR OTHER ADJUSTMENTS. In the event of any change in the capital structure of the Company, including but not limited to a change resulting from a stock dividend or split-up, or combination or reclassification of shares, the Board of Directors of the Company shall make such equitable adjustments with respect to the Stock Options or any provisions of this Plan as it deems necessary or appropriate, including, if necessary, any adjustment in the maximum number of shares of Common Stock subject to an outstanding Stock Option.

15. MERGER, CONSOLIDATION, REORGANIZATION, LIQUIDATION, ETC. If the Company shall become a party to any corporate merger, consolidation, major acquisition of property for stock, reorganization or liquidation, the Board of Directors of the Company shall make such arrangements it deems advisable with respect to outstanding Stock Options, which shall be binding upon the Recipients of outstanding Stock Options, including, but not limited to, the substitution of new Stock Options for any Stock Options then outstanding, the assumption of such Stock Options and the termination of or payment for such Stock Options.

16. COSTS AND EXPENSES. The cost and expenses of administering the Plan shall be borne by the Company and not charged to any Stock Option nor to any Recipient.

17. STOCK OPTION AGREEMENTS. The Committee shall have the power to specify the form of Stock Option Agreements to be granted from time to time pursuant to and in accordance with the provisions of the Plan and such agreements shall be final, conclusive and binding upon the Company, the shareholders of the Company and the Recipients. No Recipient shall have or acquire any rights under the Plan except such as are evidenced by a duly executed agreement in the form thus specified.

18. NO SHAREHOLDER PRIVILEGES. Neither the Recipient nor any person claiming under or through him or her shall be or have any of the rights or privileges of a shareholder of the Company in respect to any of the Common Stock issuable upon the exercise of any Stock Option, unless and until certificates evidencing such shares of Common Stock shall have been duly issued and delivered.

19. GUIDELINES. The Board of Directors of the Company shall have the power to provide guidelines for administration of the Plan by the Committee and to make any changes in such guidelines as from time to time the Board deems necessary.

20. AMENDMENT AND DISCONTINUANCE. The Board of Directors of the Company shall have the right at any time during the continuance of the Plan to amend, modify, supplement, suspend or terminate the Plan, provided that (a) no amendment, supplement, modification, suspension or termination of the Plan shall in any manner affect any Stock Option of any kind theretofore granted under the Plan without the consent of the Recipient of the Stock Option, unless such amendment, supplement, modification, suspension or termination is by reason of any change in capital structure referred to in Section 14 hereof or unless the same is by reason of the matters referred to in Section 15 hereof; (b) Sections 6 and 9 herein shall not be amended or modified more than once in any six-month period, other than to comport with changes in the Internal Revenue Code of 1986, as amended, or the rules thereunder and (c) if the Plan is duly approved by the shareholders of the Company, no amendment, modification or supplement to the Plan shall thereafter, in the absence of the approval of the holders of a majority of the shares of Common Stock of the Company present in person or by proxy at a duly constituted meeting of shareholders of the Company, (i) increase the aggregate number of shares which may be issued

under the Plan, unless such increase is by reason of any change in capital structure referred to in Section 14 hereof, (ii) change the termination date of the Plan provided in Section 21 hereof, or (iii) delete or amend the provisions of Section 9 hereof relating to the establishment of the stock option price.

21. TERMINATION. Stock Options may be granted in accordance with the terms of the Plan until December 5, 2009, on which date this Plan will terminate except as to Stock Options then outstanding hereunder, which Stock Options shall remain in effect until they have expired according to their terms.

22. APPROVAL. This Plan shall take effect upon due approval by the Board of Directors of the Company.

CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Mark A. Ernst, Chief Executive Officer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of H&R Block, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: December 8, 2004

/s/ Mark A. Ernst

Mark A. Ernst
Chief Executive Officer
H&R Block, Inc.

CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, William L. Trubeck, Chief Financial Officer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of H&R Block, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: December 8, 2004

/s/ William L. Trubeck

William L. Trubeck
Chief Financial Officer
H&R Block, Inc.

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report of H&R Block, Inc. (the "Company") on Form 10-Q for the period ending October 31, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Mark A. Ernst, Chief Executive Officer of the Company, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Mark A. Ernst

Mark A. Ernst
Chief Executive Officer
H&R Block, Inc.
December 8, 2004

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report of H&R Block, Inc. (the "Company") on Form 10-Q for the period ending October 31, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, William L. Trubeck, Chief Financial Officer of the Company, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ William L. Trubeck

William L. Trubeck
Chief Financial Officer
H&R Block, Inc.
December 8, 2004

