

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 January 31, 2002
- 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 February 28, 2002 was 183,503,521 shares.

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H&R BLOCK, INC.
CONSOLIDATED BALANCE SHEETS
Amounts in thousands, except share amounts

	January 31, 2002	April 30, 2001
	(Unaudited)	(Audited)
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 538,308	\$ 255,814
Cash and cash equivalents — restricted	101,917	15,999
Marketable securities — available-for-sale	—	8,266
Marketable securities — trading	21,733	46,158
Receivables from customers, brokers, dealers and clearing organizations, less allowance for doubtful accounts of \$1,745 and \$1,692	910,967	1,310,804
Receivables, less allowance for doubtful accounts of \$40,318 and \$47,125	1,241,470	373,223
Prepaid expenses and other current assets	329,275	260,942
TOTAL CURRENT ASSETS	3,143,670	2,271,206
INVESTMENTS AND OTHER ASSETS		
Investments in available-for-sale marketable securities	281,135	270,159
Intangible assets	382,212	402,209
Goodwill	734,463	649,617
Other	237,176	239,586
	1,634,986	1,561,571
PROPERTY AND EQUIPMENT , at cost less accumulated depreciation and amortization	287,812	288,847
	\$5,066,468	\$4,121,624
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Notes payable	\$1,638,832	\$ —
Accounts payable to customers, brokers and dealers	948,722	1,058,000
Accounts payable, accrued expenses and deposits	264,616	361,210
Accrued salaries, wages and payroll taxes	171,999	221,830
Accrued taxes on earnings	48,100	295,599
Current portion of long-term debt	53,192	51,763
TOTAL CURRENT LIABILITIES	3,125,461	1,988,402
LONG-TERM DEBT	874,644	870,974
OTHER NONCURRENT LIABILITIES	100,951	88,507
STOCKHOLDERS' EQUITY		
Common stock, no par, stated value \$.01 per share	2,179	2,179
Additional paid-in capital	465,963	419,957
Retained earnings	1,333,494	1,449,022
Accumulated other comprehensive income (loss)	(25,184)	(42,767)
	1,776,452	1,828,391
Less cost of 34,646,147 and 34,336,910 shares of common stock in treasury	811,040	654,650
	965,412	1,173,741
	\$5,066,468	\$4,121,624

See Notes to Consolidated Financial Statements

H&R BLOCK, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
 Unaudited, amounts in thousands, except per share amounts

	Three Months Ended January 31,		Nine Months Ended January 31,	
	2002	2001	2002	2001
Revenues				
Service revenues	\$523,878	\$513,639	\$ 967,052	\$1,026,353
Product revenues	155,702	103,011	391,925	214,602
Royalties	33,329	28,636	37,772	33,829
Other	15,129	10,714	34,143	22,800
	<u>728,038</u>	<u>656,000</u>	<u>1,430,892</u>	<u>1,297,584</u>
Operating expenses				
Employee compensation and benefits	321,353	305,404	698,069	624,844
Occupancy and equipment	72,678	63,717	194,106	180,175
Interest	30,733	68,048	90,323	195,219
Depreciation and amortization	38,167	52,848	107,095	148,990
Marketing and advertising	59,277	36,447	83,360	60,949
Supplies, freight and postage	22,008	19,539	38,051	37,123
Bad debt	33,095	29,194	50,194	43,448
Other	101,781	76,170	221,928	183,804
	<u>679,092</u>	<u>651,367</u>	<u>1,483,126</u>	<u>1,474,552</u>
Operating earnings (loss)	48,946	4,633	(52,234)	(176,968)
Other income				
Investment income, net	466	1,099	2,678	6,354
Other, net	362	2,060	515	2,057
	<u>828</u>	<u>3,159</u>	<u>3,193</u>	<u>8,411</u>
Earnings (loss) before income taxes (benefit)	49,774	7,792	(49,041)	(168,557)
Income taxes (benefit)	20,158	3,332	(19,862)	(71,616)
Net earnings (loss)	<u>\$ 29,616</u>	<u>\$ 4,460</u>	<u>\$ (29,179)</u>	<u>\$ (96,941)</u>
Basic net earnings (loss) per share	<u>\$.16</u>	<u>\$.02</u>	<u>\$ (.16)</u>	<u>\$ (.53)</u>
Diluted net earnings (loss) per share	<u>\$.16</u>	<u>\$.02</u>	<u>\$ (.16)</u>	<u>\$ (.53)</u>
Dividends per share	<u>\$.16</u>	<u>\$.15</u>	<u>\$.47</u>	<u>\$.44</u>

See Notes to Consolidated Financial Statements

H&R BLOCK, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
 Unaudited, amounts in thousands

	Nine Months Ended January 31,	
	2002	2001
Cash flows from operating activities:		
Net loss	\$ (29,179)	\$ (96,941)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	107,095	148,990
Net gain on sale of operating units	(362)	(2,040)
Provision for bad debt	50,194	43,448
Accretion of acquisition liabilities	8,999	8,766
Tax benefit from stock option exercises	55,004	—
Changes in:		
Cash and cash equivalents — restricted	(85,918)	4,891
Receivable from customers, brokers, dealers and clearing org	399,579	942,791
Receivables	(929,660)	(826,093)
Marketable securities — trading	24,425	2,713
Prepaid expenses and other current assets	(96,383)	(84,742)
Accounts payable to customers, brokers and dealers	(109,278)	(943,588)
Accounts payable, accrued expenses and deposits	(96,594)	62,565
Accrued salaries, wages and payroll taxes	(49,831)	(31,185)
Accrued taxes on earnings	(247,499)	(205,592)
Other, net	5,230	180
Net cash used in operating activities	(994,178)	(975,837)
Cash flows from investing activities:		
Purchases of available-for-sale securities	(3,695)	(5,413)
Maturities of available-for-sale securities	61,209	32,375
Purchases of property and equipment	(71,343)	(55,363)
Payments made for business acquisitions, net of cash acquired	(44,397)	(13,285)
Proceeds from sale of operating units	428	23,200
Other, net	(3,834)	24,065
Net cash provided by (used in) investing activities	(61,632)	5,579
Cash flows from financing activities:		
Repayments of notes payable	(6,147,398)	(11,864,855)
Proceeds from issuance of notes payable	7,786,230	13,207,864
Payments on acquisition debt	(49,479)	(67,643)
Dividends paid	(86,349)	(80,433)
Payments to acquire treasury shares	(352,213)	(222,894)
Proceeds from stock options exercised	186,825	3,019
Other, net	688	1,108
Net cash provided by financing activities	1,338,304	976,166
Net increase in cash and cash equivalents	282,494	5,908
Cash and cash equivalents at beginning of the period	255,814	353,259
Cash and cash equivalents at end of the period	\$ 538,308	\$ 359,167
Supplemental cash flow disclosures:		
Income taxes paid	\$ 162,902	\$ 123,296
Interest paid	72,896	173,137

See Notes to Consolidated Financial Statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Unaudited, dollars in thousands, except share data

1. The Consolidated Balance Sheet as of January 31, 2002, the Consolidated Statements of Operations for the three and nine months ended January 31, 2002 and 2001, and the Consolidated Statements of Cash Flows for the nine months ended January 31, 2002 and 2001 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 January 31, 2002 and for all periods presented have been made.

Reclassifications have been made to prior periods to conform with the current period presentation.

Results for the three months and nine months ended January 31, 2001 have been adjusted to reflect the implementation of SEC Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements" (SAB 101). The effect of this change was to reduce revenues by \$5,354 and net earnings by \$1,185 in the third quarter and increase revenues and net earnings by the same amounts in the fourth quarter of fiscal 2001. Therefore, there was no effect to the full fiscal year 2001 results from the implementation of SAB 101. The adjustment was reflected in the Company's April 30, 2001 Annual Report to Shareholders on Form 10-K.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. These consolidated financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's April 30, 2001 Annual Report to Shareholders on Form 10-K.

Operating revenues of the U.S. tax operations and Business services segments are seasonal in nature with peak revenues occurring in the months of January through April. Thus, the nine-month results are not indicative of results to be expected for the year.

2. Cash and cash equivalents — restricted consists primarily of cash and securities purchased under agreements to resell that are segregated and on deposit for federal or other regulatory purposes.

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3. Receivables consist of the following:

	January 31, 2002	April 30, 2001
	(Unaudited)	(Audited)
Participation in refund anticipation loans	\$ 740,932	\$ 38,824
Business services accounts receivable	172,885	188,041
Mortgage loans held for sale	126,829	80,925
Tax related fees due from Household Bank	72,261	2,600
Loans to franchisees	42,350	28,716
Royalties from franchisees	29,649	1,176
Software sales	18,005	33,456
Other	78,877	46,610
	<u>1,281,788</u>	<u>420,348</u>
Allowance for doubtful accounts	40,318	47,125
	<u>\$1,241,470</u>	<u>\$373,223</u>

4. The Company files its Federal and state income tax returns on a calendar year basis. The Consolidated Statements of Operations reflect the effective tax rates expected to be applicable for the respective full fiscal years.
5. On June 20, 2001, the Company's Board of Directors declared a two-for-one split of its common stock in the form of a 100% stock distribution effective August 1, 2001, to shareholders of record as of the close of business on July 10, 2001. All share and per share amounts have been adjusted to reflect the retroactive effect of the stock split.
6. Basic net 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 net earnings (loss) per share. The computations of basic and diluted net earnings (loss) per share are as follows (shares in thousands):

	Three months ended January 31,		Nine months ended January 31,	
	2002	2001	2002	2001
Net earnings (loss)	\$ 29,616	\$ 4,460	\$ (29,179)	\$ (96,941)
Basic weighted average shares	182,936	182,597	183,028	183,975
Effect of dilutive securities:				
Common stock options	5,244	1,474	—	—
Convertible preferred stock	1	1	—	—
Dilutive potential shares	<u>188,181</u>	<u>184,072</u>	<u>183,028</u>	<u>183,975</u>
Net earnings (loss) per share:				
Basic	\$.16	\$.02	\$ (.16)	\$ (.53)
Diluted	.16	.02	(.16)	(.53)

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Diluted net earnings (loss) per share excludes the impact of shares issuable upon the exercise of common stock options of 16,184,258 shares for the nine months ended January 31, 2002 and the conversion of 1,216 shares of preferred stock to common stock, as they are antidilutive. All common stock option shares are included in dilutive potential shares for the three months ended January 31, 2002, as the options' exercise prices were all less than the average market price for the period. Diluted net earnings (loss) per share excludes the impact of shares issuable upon the exercise of common stock options of 10,502,646 for the three months ended January 31, 2001, and 19,980,760 shares and the conversion of 1,216 shares of preferred stock to common stock for the nine months ended January 31, 2001, as they are antidilutive.

The weighted average shares outstanding for the nine months ended January 31, 2002 decreased to 183,028,000 from 183,975,000 last year, due to the purchase of treasury shares by the Company. The effect of these repurchases was partially reduced by the issuance of treasury shares for stock option exercises.

7. During the nine months ended January 31, 2002 and 2001, the Company issued 9,260,707 and 213,550 shares of common stock, respectively, pursuant to provisions for exercise of stock options under its stock option plans. During the nine months ended January 31, 2002, the Company acquired 9,697,158 shares of its common stock at an aggregate cost of \$352,213. During the nine months ended January 31, 2001, the Company acquired 13,632,196 shares of its common stock at an aggregate cost of \$222,894.
8. CompuServe Corporation (CompuServe), certain current and former officers and directors of CompuServe and the Company were named as defendants in six lawsuits in state and Federal courts in Columbus, Ohio. All suits alleged similar violations of the Securities Act of 1933 based on assertions of omissions and misstatements of fact in connection with CompuServe's public filings related to its initial public offering in April 1996. One state lawsuit brought by the Florida State Board of Administration also alleged certain oral omissions and misstatements in connection with such offering. Relief sought in the lawsuits was unspecified, but included pleas for rescission and damages.

In the class action pending in state court, the court issued, in November 2000, its order approving a settlement pursuant to which the defendants agreed to pay a gross settlement amount of \$9,500. Payment of plaintiffs' attorneys' fees and expenses were to be paid out of the gross settlement fund. The gross settlement fund was paid in its entirety by the Company's insurance carrier. The agreement to settle and payment of the gross settlement fund are not admissions of the validity of any claim or any fact alleged by the plaintiffs and defendants continue to deny any wrongdoing and any liability.

The Florida State Board of Administration opted out of the class action settlement and that litigation continues separately from the state court class action. The parties have reached a settlement that will dispose of the case in its entirety with no material adverse impact on the Company's consolidated financial position or results of operations.

9. The Company's comprehensive income is comprised of net earnings (loss), foreign currency translation adjustments and the change in the net unrealized gain (loss) on marketable

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securities. The components of comprehensive income (loss) during the three and nine months ended January 31, 2002 and 2001 were:

	Three months ended January 31,		Nine months ended January 31,	
	2002	2001	2002	2001
Net earnings (loss)	\$29,616	\$ 4,460	\$(29,179)	\$(96,941)
Change in net unrealized gain (loss) on marketable securities	(3,729)	9,027	21,877	7,414
Change in foreign currency translation adjustments	(565)	526	(4,294)	(5,649)
Comprehensive income (loss)	\$25,322	\$14,013	\$(11,596)	\$(95,176)

10. In May 2001, the Company elected early adoption of Statement of Financial Accounting Standards No. 141, "Business Combinations," and No. 142, "Goodwill and Other Intangible Assets" (SFAS 141 and 142). SFAS 141 addresses financial accounting and reporting for business combinations and replaces APB Opinion No. 16, "Business Combinations" (APB 16). SFAS 141 no longer allows the pooling of interests method of accounting for acquisitions, provides new recognition criteria for intangible assets and carries forward without reconsideration the guidance in APB 16 related to the application of the purchase method of accounting. SFAS 142 addresses financial accounting and reporting for acquired goodwill and other intangible assets and replaces APB Opinion No. 17, "Intangible Assets." SFAS 142 addresses how intangible assets should be accounted for upon their acquisition and after they have been initially recognized in the financial statements. The new standards provide specific guidance on measuring goodwill for impairment annually using a two-step process.

As of May 1, 2001, the Company identified those intangible assets that remain separable under the provisions of SFAS 141 and those that are to be included in goodwill. In applying SFAS 142, the Company re-evaluated the useful lives of these separable intangible assets. The weighted average life of the remaining intangible assets with finite lives is 10 years. In accordance with SFAS 141, on the date of adoption, the previously identified intangible assets of assembled workforce and management infrastructure were subsumed into goodwill. In the year of adoption, SFAS 142 requires the first step of the goodwill impairment test to be completed within the first six months and the final step to be completed within twelve months of adoption. The first step of the test was completed during the quarter ended October 31, 2001 and no indications of goodwill impairment were found; therefore, step two of the goodwill impairment test is not applicable.

Had the provisions of SFAS 141 and 142 been applied for the three and nine months ended January 31, 2001, the Company's net earnings (loss) and net earnings (loss) per share would have been as follows:

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	Three months ended January 31, 2001		Nine months ended January 31, 2001	
	Net earnings	Per Share	Net loss	Per share
Net earnings (loss):				
As reported	\$ 4,460	\$.02	\$(96,941)	\$ (.53)
Add amortization (net of tax):				
Goodwill	7,195	.04	21,336	.12
Assembled workforce	4,023	.02	11,727	.06
Management infrastructure	226	—	677	—
Trade name	431	.01	1,292	.01
Adjusted net earnings (loss)	\$ 16,335	\$.09	\$(61,909)	\$ (.34)

Intangible assets consist of the following:

	January 31, 2002		April 30, 2001	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets:				
Customer relationships	\$405,505	\$ (91,789)	\$397,049	\$ (61,036)
Noncompete agreements	20,517	(2,790)	17,269	(1,842)
Unamortized intangible assets:				
Trade name	55,637	(4,868)	55,637	(4,868)
Total intangible assets	\$481,659	\$ (99,447)	\$469,955	\$ (67,746)

Changes in the carrying amount of goodwill for the nine months ended January 31, 2002, are as follows by segment:

	April 30, 2001	Acquisitions	Other	January 31, 2002
U.S. tax operations	\$126,829	\$ 2,089	\$—	\$128,918
International tax operations	5,755	—	89	5,844
Mortgage operations	152,467	—	—	152,467
Investment services	169,732	—	—	169,732
Business services	194,834	82,668	—	277,502
Total goodwill	\$649,617	\$ 84,757	\$89	\$734,463

Amortization of intangible assets for the three and nine months ended January 31, 2002 was \$10,741 and \$31,701, respectively. Estimated amortization of intangible assets for fiscal years 2002, 2003, 2004, 2005 and 2006 is \$43,765, \$41,808, \$41,533, \$41,533 and \$41,533, respectively.

In December 2001, the Company acquired a controlling interest in MyBenefitSource, an integrated payroll and benefits processing company, with an option to acquire the remaining shares. The Company also acquired 100% of Equico Resources, LLC ("Equico"), a valuation, merger and acquisition consulting company. These acquisitions were accounted for as purchases, and the results of operations for these businesses have been consolidated in the segment's financial results since acquisition. Total cash payments related to these acquisitions totaled \$28.5

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million. The purchase agreements also provide for possible future contingent consideration based on achieving certain revenue, profitability and working capital targets over the next five years, and such consideration will be treated as purchase price when paid. The excess of cost over the fair value of net tangible assets acquired is included in goodwill for the Business services segment. Upon completion of the valuation of identifiable intangible assets, such will be reclassified out of goodwill into the appropriate intangible asset categories.

11. Included in Marketable securities-trading and Investments in available-for-sale marketable securities on the consolidated balance sheet are residual interests in securitizations (residuals) of real estate mortgage investment conduits (REMICs). The fair value of the residuals at January 31, 2002 and April 30, 2001 was \$266,199 and \$238,600, respectively. The Company received cash proceeds from net interest margin (NIM) securitizations of \$412,715 and cash flows from interest-only strips of \$33,006 from the securitization trusts during the nine months ended January 31, 2002.

Mortgage servicing rights (MSRs) are included in other assets on the consolidated balance sheet. The fair value of MSRs at January 31, 2002 and April 30, 2001 was \$78,427 and \$61,796, respectively. Additions to and amortization of MSRs for the nine months ended January 31, 2002 were \$46,819 and \$30,188, respectively.

The key assumptions the Company utilizes to estimate the cash flows of the residual interests and MSRs are as follows:

Estimated annual prepayments	23% to 90%
Estimated annual credit losses	2.5% to 6.5%
Discount rate — residual interests	12% to 37%
Discount rate — MSRs	12.8%

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At January 31, 2002, the sensitivities of the current fair value of the residuals and MSRs to 10% and 20% adverse changes in the above key assumptions are as follows:

	Residential Mortgage Loans		
	Cross-Collateralized	NIM Residuals	Servicing Asset
Carrying amount/fair value of residuals	\$ 65,452	\$ 200,747	\$ 78,427
Weighted average life (in years)	3.1	2.4	1.6
Annual prepayments (including defaults):			
Adverse 10% — \$ impact on fair value	\$ (2,628)	\$ (5,997)	\$ (9,934)
Adverse 20% — \$ impact on fair value	(2,383)	(7,776)	(20,068)
Annual credit losses:			
Adverse 10% — \$ impact on fair value	\$ (4,839)	\$ (26,826)	Not applicable
Adverse 20% — \$ impact on fair value	(6,911)	(55,837)	Not applicable
Discount rate:			
Adverse 10% — \$ impact on fair value	\$ (4,865)	\$ (6,043)	\$ (1,218)
Adverse 20% — \$ impact on fair value	(6,876)	(11,572)	(2,399)
Variable interest rates:			
Adverse 10% — \$ impact on fair value	\$ (3,025)	\$ (36,660)	Not applicable
Adverse 20% — \$ impact on fair value	(3,197)	(62,400)	Not applicable

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

12. In May 2001, the Company adopted Emerging Issues Task Force (EITF) Issue 99-20, "Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interests in Securitized Financial Assets" (EITF 99-20). EITF 99-20 addresses how the holder of beneficial interests should recognize cash flows on the date of the transaction, how interest income is recognized over the life of the interests and when securities must be written down to fair value due to other than temporary impairments. EITF 99-20 requires adverse changes in the timing of cash flows to be treated as losses when they are determined and requires positive changes to cash flows to be accreted into earnings over the remaining life of the underlying loans using the effective yield method. The adoption of EITF 99-20 did not have a material impact on the consolidated financial statements.
13. In August 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" (SFAS 144), effective for the Company's fiscal year beginning May 1, 2002. This

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statement supercedes Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of," (SFAS 121) and the accounting and reporting provisions of Accounting Principles Board Opinion No. 30, "Reporting the Results of Operations — Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions," for the disposal of a segment of a business. SFAS 144 establishes a single accounting model, based on the framework established in SFAS 121, for long-lived assets to be disposed of by sale. The Company does not anticipate that the adoption of SFAS 144 will have a material effect on the consolidated financial statements.

14. On May 1, 2001, the Company adopted a new methodology for allocation of corporate services and support costs to business units. The change was made to more accurately reflect each business segment's performance. Prior year segment results have been restated based on this allocation methodology. Information concerning the Company's operations by reportable operating segments for the three and nine months ended January 31, 2002 and 2001 is as follows:

	Three months ended January 31,		Nine months ended January 31,	
	2002	2001	2002	2001
Revenues:				
U.S. tax operations	\$379,235	\$321,956	\$ 427,229	\$ 359,709
International tax operations	7,989	7,857	26,530	27,655
Mortgage operations	179,751	114,169	508,897	279,459
Investment services	61,085	118,164	194,837	380,404
Business services	94,194	92,729	265,955	247,093
Corporate operations	5,784	1,125	7,444	3,264
	<u>\$728,038</u>	<u>\$656,000</u>	<u>\$1,430,892</u>	<u>\$1,297,584</u>
Earnings (loss) from:				
U.S. tax operations	\$ 25,280	\$ 1,498	\$ (160,113)	\$ (169,788)
International tax operations	(5,242)	(6,486)	(11,886)	(13,692)
Mortgage operations	77,427	38,051	237,397	80,014
Investment services	(12,300)	7,378	(27,533)	30,840
Business services	1,780	769	2,163	(3,495)
Corporate operations	(16,660)	(7,366)	(31,917)	(19,266)
Interest exp.-acquisition debt	(19,243)	(23,988)	(60,001)	(75,760)
	<u>51,042</u>	<u>9,856</u>	<u>(51,890)</u>	<u>(171,147)</u>
Investment income, net	466	1,099	2,678	6,354
Intercompany interest	(1,734)	(3,163)	171	(3,764)
	<u>\$ 49,774</u>	<u>\$ 7,792</u>	<u>\$ (49,041)</u>	<u>\$ (168,557)</u>

Intercompany interest represents net interest expense charged to financial related businesses for corporate cash that was borrowed to fund their operating activities and net unallocated interest expense attributable to commitment fees on the Company's credit facility.

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15. Block Financial Corporation (BFC) is an indirect, wholly owned subsidiary of the Company. BFC is the Issuer and the Company is the Guarantor of the Senior Notes issued on October 21, 1997 and April 13, 2000. 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.

Condensed Consolidating Statements of Operations

Three months ended January 31, 2002					
	H&R Block, Inc. (Guarantor)	BFC (Issuer)	Other Subsidiaries	Elims	Consolidated H&R Block
Total revenues	\$ —	\$296,795	\$ 433,534	\$ (2,291)	\$ 728,038
Expenses:					
Compensation & benefits	—	82,464	238,889	—	321,353
Occupancy & equipment	—	14,711	57,967	—	72,678
Interest	—	24,175	6,558	—	30,733
Depreciation & amortization	—	17,667	20,500	—	38,167
Marketing & advertising	—	12,297	47,080	(100)	59,277
Supplies, freight & postage	—	3,402	18,606	—	22,008
Other	—	86,245	50,922	(2,291)	134,876
	—	240,961	440,522	(2,391)	679,092
Operating earnings (loss)	—	55,834	(6,988)	100	48,946
Other income, net	49,774	—	828	(49,774)	828
Earnings (loss) before income taxes (benefit)	49,774	55,834	(6,160)	(49,674)	49,774
Income taxes (benefit)	20,158	22,675	(2,557)	(20,118)	20,158
Net earnings (loss)	\$ 29,616	\$ 33,159	\$ (3,603)	\$(29,556)	\$ 29,616

Three months ended January 31, 2001					
	H&R Block, Inc. (Guarantor)	BFC (Issuer)	Other Subsidiaries	Elims	Consolidated H&R Block
Total revenues	\$ —	\$278,290	\$ 379,716	\$(2,006)	\$ 656,000
Expenses:					
Compensation & benefits	—	78,674	226,730	—	305,404
Occupancy & equipment	—	12,225	51,492	—	63,717
Interest	—	59,835	8,213	—	68,048
Depreciation & amortization	—	21,392	31,456	—	52,848
Marketing & advertising	—	11,784	24,767	(104)	36,447
Supplies, freight & postage	—	5,461	14,078	—	19,539
Other	—	57,602	49,768	(2,006)	105,364
	—	246,973	406,504	(2,110)	651,367
Operating earnings (loss)	—	31,317	(26,788)	104	4,633
Other income, net	7,792	—	3,159	(7,792)	3,159
Earnings (loss) before income taxes (benefit)	7,792	31,317	(23,629)	(7,688)	7,792
Income taxes (benefit)	3,332	14,545	(11,257)	(3,288)	3,332
Net earnings (loss)	\$ 4,460	\$ 16,772	\$ (12,372)	\$(4,400)	\$ 4,460

Nine months ended January 31, 2002

	H&R Block, Inc. (Guarantor)	BFC (Issuer)	Other Subsidiaries	Elims	Consolidated H&R Block
Total revenues	\$ —	\$763,249	\$ 669,987	\$ (2,344)	\$1,430,892
Expenses:					
Compensation & benefits	—	237,621	460,448	—	698,069
Occupancy & equipment	—	45,611	148,495	—	194,106
Interest	—	78,920	11,403	—	90,323
Depreciation & amortization	—	51,316	55,779	—	107,095
Marketing & advertising	—	20,201	63,461	(302)	83,360
Supplies, freight & postage	—	10,630	27,421	—	38,051
Other	—	172,193	102,273	(2,344)	272,122
	—	616,492	869,280	(2,646)	1,483,126
Operating earnings (loss)	—	146,757	(199,293)	302	(52,234)
Other income, net	(49,041)	—	3,193	49,041	3,193
Earnings (loss) before income taxes (benefit)	(49,041)	146,757	(196,100)	49,343	(49,041)
Income taxes (benefit)	(19,862)	60,212	(80,196)	19,984	(19,862)
Net earnings (loss)	\$ (29,179)	\$ 86,545	\$(115,904)	\$29,359	\$ (29,179)

Nine months ended January 31, 2001

	H&R Block, Inc. (Guarantor)	BFC (Issuer)	Other Subsidiaries	Elims	Consolidated H&R Block
Total revenues	\$ —	\$709,581	\$ 590,121	\$ (2,118)	\$1,297,584
Expenses:					
Compensation & benefits	—	222,808	402,036	—	624,844
Occupancy & equipment	—	38,395	141,780	—	180,175
Interest	—	179,916	15,303	—	195,219
Depreciation & amortization	—	65,460	83,530	—	148,990
Marketing & advertising	—	22,918	38,383	(352)	60,949
Supplies, freight & postage	—	14,052	23,071	—	37,123
Other	—	124,953	104,468	(2,169)	227,252
	—	668,502	808,571	(2,521)	1,474,552
Operating earnings (loss)	—	41,079	(218,450)	403	(176,968)
Other income, net	(168,557)	—	8,411	168,557	8,411
Earnings (loss) before income taxes (benefit)	(168,557)	41,079	(210,039)	168,960	(168,557)
Income taxes (benefit)	(71,616)	27,515	(99,302)	71,787	(71,616)
Net earnings (loss)	\$ (96,941)	\$ 13,564	\$(110,737)	\$ 97,173	\$ (96,941)

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Condensed Consolidating Balance Sheets

January 31, 2002

	H&R Block, Inc. (Guarantor)	BFC (Issuer)	Other Subsidiaries	Elims	Consolidated H&R Block
Cash & cash equivalents	\$ —	\$ 431,147	\$ 107,161	\$ —	\$ 538,308
Cash & equivalents-restricted	—	101,917	—	—	101,917
Receivables from customers, brokers and dealers	—	910,967	—	—	910,967
Receivables	1,256	948,497	291,717	—	1,241,470
Intangible assets	—	229,517	152,695	—	382,212
Goodwill	—	322,199	412,264	—	734,463
Investments in subsidiaries	2,441,048	215	1,001	(2,441,048)	1,216
Other assets	70	784,972	370,536	337	1,155,915
Total assets	\$ 2,442,374	\$3,729,431	\$ 1,335,374	\$(2,440,711)	\$5,066,468
Notes payable	\$ —	\$1,638,832	\$ —	\$ —	\$1,638,832
Accts. payable to customers, brokers and dealers	—	948,722	—	—	948,722
Long-term debt	—	746,738	127,906	—	874,644
Other liabilities	4,928	178,633	456,589	(1,292)	638,858
Net intercompany advances	1,472,034	(160,482)	(1,312,879)	1,327	—
Stockholders' equity	965,412	376,988	2,063,758	(2,440,746)	965,412
Total liabilities and stockholders' equity	\$ 2,442,374	\$3,729,431	\$ 1,335,374	\$(2,440,711)	\$5,066,468

April 30, 2001

	H&R Block, Inc. (Guarantor)	BFC (Issuer)	Other Subsidiaries	Elims	Consolidated H&R Block
Cash & cash equivalents	\$ —	\$ 151,140	\$ 104,674	\$ —	\$ 255,814
Cash & equivalents-restricted	—	15,999	—	—	15,999
Receivables from customers, brokers and dealers	—	1,310,804	—	—	1,310,804
Receivables	—	172,409	200,814	—	373,223
Intangible assets	—	251,492	150,717	—	402,209
Goodwill	—	322,199	327,418	—	649,617
Investments in subsidiaries	2,452,643	215	262	(2,452,643)	477
Other assets	—	720,004	394,431	(954)	1,113,481
Total assets	\$ 2,452,643	\$2,944,262	\$ 1,178,316	\$(2,453,597)	\$4,121,624
Notes payable	\$ —	\$ —	\$ —	\$ —	\$ —
Accts. payable to customers, brokers and dealers	—	1,058,000	—	—	1,058,000
Long-term debt	—	746,250	124,724	—	870,974
Other liabilities	4,763	228,847	782,058	3,241	1,018,909
Net intercompany advances	1,274,139	637,487	(1,907,206)	(4,420)	—
Stockholders' equity	1,173,741	273,678	2,178,740	(2,452,418)	1,173,741
Total liabilities and stockholders' equity	\$ 2,452,643	\$2,944,262	\$ 1,178,316	\$(2,453,597)	\$4,121,624

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Condensed Consolidating Statements of Cash Flows

Nine months ended January 31, 2002

	H&R Block, Inc. (Guarantor)	BFC (Issuer)	Other Subsidiaries	Elims	Consolidated H&R Block
Net cash provided by (used in) operating activities	\$ 53,842	\$ (560,171)	\$(487,849)	\$—	\$ (994,178)
Cash flows from investing:					
Purchase of AFS securities	—	—	(3,695)	—	(3,695)
Maturities of AFS securities	—	33,005	28,204	—	61,209
Purchase property & equipment	—	(27,954)	(43,389)	—	(71,343)
Payments for business acq.	—	—	(44,397)	—	(44,397)
Net intercompany advances	197,895	(803,705)	605,810	—	—
Proceeds from sale of operating units	—	—	428	—	428
Other, net	—	—	(3,834)	—	(3,834)
Net cash provided by (used in) investing activities	197,895	(798,654)	539,127	—	(61,632)
Cash flows from financing:					
Repayments of notes payable	—	(6,147,398)	—	—	(6,147,398)
Proceeds from notes payable	—	7,786,230	—	—	7,786,230
Payments on acquisition debt	—	—	(49,479)	—	(49,479)
Dividends paid	(86,349)	—	—	—	(86,349)
Payments to acquire treasury shares	(352,213)	—	—	—	(352,213)
Proceeds from stock option exercises	186,825	—	—	—	186,825
Other, net	—	—	688	—	688
Net cash provided by (used in) financing activities	(251,737)	1,638,832	(48,791)	—	1,338,304
Net increase in cash	—	280,007	2,487	—	282,494
Cash — beginning of period	—	151,140	104,674	—	255,814
Cash — end of period	\$ —	\$ 431,147	\$ 107,161	\$—	\$ 538,308

Nine months ended January 31, 2001

	H&R Block, Inc. (Guarantor)	BFC (Issuer)	Other Subsidiaries	Elims	Consolidated H&R Block
Net cash used in operating activities	\$ (96)	\$ (585,216)	\$(390,525)	\$—	\$ (975,837)
Cash flows from investing:					
Purchase of AFS securities	—	—	(5,413)	—	(5,413)
Maturities of AFS securities	—	11,599	20,776	—	32,375
Purchase property & equipment	—	(18,383)	(36,980)	—	(55,363)
Payments for business acq	—	—	(13,285)	—	(13,285)
Net intercompany advances	300,404	(747,803)	447,399	—	—
Proceeds from sale of operating units	—	—	23,200	—	23,200
Other, net	—	—	24,065	—	24,065
Net cash provided by (used in) investing activities	300,404	(754,587)	459,762	—	5,579
Cash flows from financing:					
Repayments of notes payable	—	(11,864,855)	—	—	(11,864,855)
Proceeds from notes payable	—	13,207,864	—	—	13,207,864
Payments on acquisition debt	—	—	(67,643)	—	(67,643)
Dividends paid	(80,433)	—	—	—	(80,433)
Payments to acquire treasury shares	(222,894)	—	—	—	(222,894)
Proceeds from stock option exercises	3,019	—	—	—	3,019
Other, net	—	—	1,108	—	1,108
Net cash provided by (used in) financing activities	(300,308)	1,343,009	(66,535)	—	976,166
Net increase in cash	—	3,206	2,702	—	5,908
Cash — beginning of period	—	230,181	123,078	—	353,259
Cash — end of period	\$ —	\$ 233,387	\$ 125,780	\$—	\$ 359,167

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

GENERAL

H&R Block's Mission:

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

H&R Block's Vision:

"To provide shareholder value as we strive to be the world's leading provider of financial services through tax and accounting based advisory relationships."

Overview of Reportable Operating Segments

The principal business activity of the Company's operating subsidiaries is providing tax and financial services to the general public. The Company does business in the following reportable operating segments:

U.S. tax operations: This segment primarily consists of the Company's traditional tax business — which served 16.9 million taxpayers in fiscal year 2001, more than any other company.

International tax operations: This segment is primarily engaged in providing local tax return preparation, filing and related services in Canada, Australia and the United Kingdom.

Mortgage operations: This segment is primarily engaged in the origination, servicing, and sale of nonconforming and conforming mortgage loans.

Investment services: This segment is primarily engaged in offering investment advice and services.

Business services: This segment is primarily engaged in providing accounting, tax and consulting services to business clients and tax, estate planning, financial planning, wealth management and insurance services to individuals.

General Business

During the first month of the tax-filing season, U.S. tax operations were off to a strong start over the prior year. Tax law changes drove a substantial increase in the average fee due to added complexity for early season filers. The new complexity is primarily related to last year's tax rebates and to a lesser extent, changes in the child tax credit. The increase in average fees associated with the tax rebate is not expected to continue, at the level experienced during January, for the remainder of the tax season. Due to the sensitivity of the January 31 cut-off for the third quarter, the Company believes that results through February are a better indicator of how the tax season is progressing. Through February 28, 2002, tax returns prepared by company-owned offices increased 3.3% to 6.3 million (compared to 4.9% through January 31, 2002) and the number of clients served increased 2.3% to 6.3 million (compared to 3.9% through

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January 31, 2002). The average fee per client served through February 28 was up 8.9% to \$122.27 compared to \$112.27 last year and compared to 10.3% through January 31, 2002.

This tax season, U.S. tax operations began offering new products to bring additional value to H&R Block's client base. For the first time, tax offices are offering a new Refund Anticipation Loan (RAL) product — an "instant RAL." With an "instant RAL," clients who qualify can receive a check for loan proceeds upon the completion of their tax return and will not have to return to the office a second time to pick up their check. In addition, tax offices are offering a new product to those clients whose tax returns reflect a balance due the Internal Revenue Service (IRS). Through a relationship with Household Bank, f.s.b. (Household), clients who qualify can receive a line of credit from Household that can be used to pay a balance due the IRS. This line of credit will have "same as cash" terms for 90 days. Unlike the traditional RAL products, the Company does not have a participation interest in these lines of credit. The e-commerce business is also offering new tax and advice products to its clients. This tax season, both software and online users have an opportunity to have an H&R Block tax professional review their return and provide feedback to the client prior to filing. In addition, all software and online clients have the opportunity to open an Express IRA account and to receive a free financial plan through H&R Block Financial Advisors (HRBFA).

During fiscal 2002, the Company's residual interests have been performing better than expected with higher excess retained interest spread and lower loan losses and prepayments to date than originally projected. As a result of these items, in accordance with Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities," the Company recorded a \$45.1 million pretax mark-to-market adjustment in other comprehensive income (loss) during the second quarter. Beginning in the third quarter, the Company adjusted the amount of interest income recognized on certain residual interests to reflect these new conditions. This adjustment results in higher interest income earned throughout the remaining life of those residual interests, assuming conditions remain the same. Management continues to evaluate the strategy of executing a net interest margin (NIM) transaction to securitize certain existing residual interests from previous NIM transactions in an effort to expedite cash receipts, as discussed in the Form 10-Q for the period ended October 31, 2001.

One of the Company's core strategic objectives is creating a financial partnership with its tax clients through delivery of advice, coupled with the products and services needed to act on that advice. The Company's initiative to serve the mortgage needs of its tax clients through its retail mortgage operations resulted in 39.8% of all retail loans, and 7.5% of all loans originated during the third quarter this year coming from H&R Block tax clients. It had been previously disclosed that 66.4% of all retail loans, and 12.6% of all loans originated were referred from H&R Block's tax client base. While the percentages are correct, the referral source should have been stated as all H&R Block clients, including clients of HRBFA and Option One Mortgage servicing.

During the 2002 tax season, Express IRA was launched in all tax services regions whereas in the 2001 tax season, it was only offered in six tax services regions. Express IRA introduces new technology, sales activities, service functions and training across the tax services and HRBFA organizations. Another key cross-organizational initiative was the creation and testing of the Tax Preparer Financial Advisor (TPFA) program. In its pilot year in fiscal 2001, 430 TPFAs cross-

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sold 3,000 investment-related accounts. From May 1, 2001 to February 15, 2002, 440 TPFAs have cross-sold 3,445 investment related accounts (accounts opened and funded).

RESULTS OF OPERATIONS

The analysis that follows should be read in conjunction with the tables below and the Consolidated Statements of Operations found on page 2. All amounts in the following tables are in thousands, except as noted.

On May 1, 2001, the Company adopted a new methodology for allocation of corporate services and support costs to business units. The change was made to more accurately reflect each business segment's performance. Prior year segment results have been restated based on this allocation methodology.

Consolidated H&R Block, Inc.

Consolidated H&R Block, Inc. — Three-month comparison to prior year

	Three months ended January 31,		Variance Better/(worse)	
	2002	2001	\$	%
Revenues	\$728,038	\$656,000	\$72,038	11.0%
Pretax earnings	49,774	7,792	41,982	538.8%
Net earnings	\$ 29,616	\$ 4,460	\$25,156	564.0%
Basic & diluted earnings per share	\$.16	\$.02	\$.14	700.0%

Consolidated revenues for the three months ended January 31, 2002 increased 11.0% primarily due to the Mortgage and U.S. tax operations segments, which increased revenues by \$65.6 million, and \$57.3 million, respectively, over the prior year. These increases were partially offset by the decline in revenues from Investment services of \$57.1 million.

The Company reported pretax earnings of \$49.8 million for the third quarter of fiscal 2002 compared to \$7.8 million in the prior year, an increase of \$42.0 million. The improvement over the prior year is primarily due to the Mortgage and U.S. tax operations segments. Mortgage operations reported earnings of \$77.4 million, a \$39.4 million improvement over last year and U.S. tax operations reported earnings of \$25.3 million, a \$23.8 million increase over the third quarter last year. Losses of \$12.3 million from Investment services somewhat offset these improvements. In addition, the Company benefited \$15.6 million over the prior year's third quarter from the adoption of SFAS 141 and 142, which is included in the respective reportable segments.

Net earnings were \$29.6 million, or \$.16 per basic and diluted share compared to \$4.5 million, or \$.02 per basic and diluted share in the third quarter of fiscal 2001. The three months ended

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January 31, 2002 reflect the adoption of SFAS 141 and 142 effective May 1, 2001 related to business combinations, goodwill and other intangible assets, which eliminates goodwill and certain other intangible asset amortization. Of the improvement over the prior year's third quarter, \$11.9 million (net of taxes), or \$.06 per diluted share and \$.07 per basic share, relates to this change in accounting.

The effective income tax rate decreased from 42.5% last year to 40.5% this year. The decrease in the effective tax rate is primarily due to the reduction in non-deductible goodwill and other intangible asset amortization related to the adoption of SFAS 141 and 142 on May 1, 2001.

The Company's performance as measured by earnings before interest (including interest expense on acquisition debt, investment income and interest allocated to operating business units), taxes, depreciation and amortization (EBITDA) improved \$21.8 million, or 25.1%, to \$108.5 million compared to \$86.7 million in the prior year's third quarter. EBITDA is utilized by management to evaluate the performance of its operating segments because many of the segments reflect substantial amortization of acquired intangible assets and goodwill resulting from recent acquisitions. Management believes EBITDA is a good measure of cash flow generation because the Company's operations have not historically been capital intensive, and it also removes the effects of purchase accounting. The calculation of EBITDA may not be comparable to the calculation of EBITDA by other companies and it is a non-GAAP financial measure.

In addition, the Company continues to measure its performance based on the calculation of earnings excluding the after-tax impact of amortization of acquired intangible assets. Net earnings, excluding the after-tax impact of this expense, were \$39.4 million, or \$.21 per diluted share in the third quarter, compared to \$25.9 million, or \$.14 per diluted share in last year's third quarter.

Consolidated H&R Block, Inc. — Three-month comparison to preceding quarter

	Fiscal Year 2002 Quarter		Variance Better/(worse)	
	3rd	2nd	\$	%
Revenues	\$728,038	\$378,729	\$349,309	92.2%
Pretax earnings (loss)	49,774	(47,077)	96,851	—
Net earnings (loss)	\$ 29,616	\$ (28,011)	\$ 57,627	—
Basic and diluted earnings (loss) per share	\$.16	\$ (.15)	\$.31	—

Consolidated revenues for the three months ended January 31, 2002 increased 92.2% over the three months ended October 31, 2001 almost entirely due to the U.S. tax operations segment, increasing \$351.2 million over the second quarter, resulting from the start of the U.S. tax-filing season.

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The Company reported pretax earnings of \$49.8 million for the third quarter of fiscal 2002 compared to a loss of \$47.1 million in the second quarter. The quarter-over-quarter improvement is due to the U.S. tax operations segment, with a \$129.5 million improvement over last quarter. This increase was partially offset by lower earnings from Mortgage operations and Business services and increased losses from International tax operations and Investment services. Net earnings were \$29.6 million, or \$.16 per share compared to a loss of \$28.0 million, or \$.15 per share in the second quarter.

The Company's performance as measured by EBITDA improved to \$108.5 million compared to \$5.9 million for the three months ended October 31, 2001. The Company's net earnings, excluding the after-tax impact of the amortization of acquired intangible assets, was \$39.4 million, or \$.21 per diluted share in the third quarter, compared to a loss of \$18.5 million, or \$.10 per basic share in the second quarter.

Consolidated H&R Block, Inc. — Nine-month comparison to prior year

	Nine months ended January 31,		Variance Better/(worse)	
	2002	2001	\$	%
Revenues	\$1,430,892	\$1,297,584	\$133,308	10.3%
Pretax loss	(49,041)	(168,557)	119,516	70.9%
Net loss	\$ (29,179)	\$ (96,941)	\$ 67,762	69.9%
Basic & diluted loss per share	\$ (.16)	\$ (.53)	\$.37	69.8%

Consolidated revenues for the nine months ended January 31, 2002 increased 10.3% primarily due to the Mortgage operations segment, which increased revenues by \$229.4 million, or 82.1%, over the prior year. Also contributing to the increase was the U.S. tax operations and Business services segments, which reported an 18.8% and 7.6%, respectively, improvement over the prior year. These increases were partially offset by the decline in revenues of \$185.6 million from Investment services.

The Company reported a pretax loss of \$49.0 million for the nine months ended January 31, 2002 compared to a loss of \$168.6 million in the prior year. The improvement over the prior year is primarily due to the Mortgage operations segment that reported earnings of \$237.4 million, a \$157.4 million improvement over last year. Losses of \$27.5 million from Investment services somewhat offset the increase from Mortgage operations. U.S. tax and International tax operations, as well as Business services, also reported improvements over the prior year. In addition, the Company's improved performance over the prior year is attributable to the adoption of SFAS 141 and 142, which positively impacted the year-over-year variance by \$45.7 million.

The net loss was \$29.2 million, or \$.16 per share compared to a net loss of \$96.9 million, or \$.53 per share for the nine months ended January 31, 2001. Of the improvement over the prior year, \$35.0 million (net of taxes), or \$.19 per share, relates to the adoption of SFAS 141 and 142.

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The effective income tax rate decreased from 42.5% last year to 40.5% this year. The decrease in the effective tax rate is primarily due to the reduction in non-deductible goodwill and other intangible asset amortization related to the adoption of SFAS 141 and 142 on May 1, 2001.

The Company's performance as measured by EBITDA improved \$61.6 million to \$115.2 million compared to \$53.6 million for the nine months ended January 31, 2001. The Company's net loss, excluding the after-tax impact of amortization of acquired intangible assets, was \$492 thousand in the current year, compared to \$33.8 million, or \$.18 per share last year.

U.S. Tax Operations

This segment primarily consists of the Company's traditional tax business — which served 16.9 million taxpayers in fiscal year 2001, more than any other company. This segment is primarily engaged in providing tax return preparation, filing, and related services in the United States. Tax-related service revenues include fees from company-owned tax offices and royalties from franchised offices. This segment also participates in the Refund Anticipation Loan (RAL) products offered by a third-party lending institution to tax clients. This segment includes the Company's tax preparation software — TaxCut® from H&R Block, other personal productivity software, online tax preparation through a tax professional (whereby the client fills out an online tax organizer and sends it to a tax professional for preparation), online do-it-yourself tax preparation, online professional tax review and online tax advice through the hrblock.com website.

The Company participates with Household in offering RALs to customers through tax offices (49.9% in company-owned offices and 25.0% in major franchise offices). Revenue from participation is calculated as the Company's percentage participation multiplied by the fee that the customer pays for the RAL. The fee that the customer pays for the RAL is set by Household and is based on the dollar amount of the RAL.

This segment offers RALs through its tax offices and also participates in the funding of the RALs. As these are two different operating activities, there is a difference between the number of RALs in which the Company participates and the number of RALs reported in tax offices. This difference is due to the timing of the IRS acknowledgement of the return and when the client receives the funds. The number of RALs in which the Company participates is accumulated when the client receives the funds. The number of RALs reported in tax offices is accumulated when the IRS acknowledges receipt the tax return.

Due to the seasonal nature of this segment's business, third quarter and year-to-date results are not indicative of the expected results for the entire fiscal year.

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U.S. Tax Operations — Statistics for company-owned operations

(in 000s except average fee and offices)

	Period January 1 through January 31,		Percent change
	2002	2001	
Tax returns prepared	2,129	2,029	4.9%
Clients served:			
Company-owned offices	2,149	2,069	3.9%
E-commerce	143	109	31.2%
Tax returns filed electronically:			
Company-owned offices	2,081	1,977	5.3%
E-commerce	119	96	24.0%
Average fee per client served (in offices)	\$120.89	\$109.63	10.3%
Refund anticipation loans (RALs):			
Company-owned offices	1,196	1,020	17.3%
E-commerce	8	5	60.0%
Offices	5,017	5,060	-0.8%

U.S. Tax Operations — Three-month comparison to prior year

	Three months ended January 31,		Variance Better/(worse)	
	2002	2001	\$	%
Tax preparation and related fees	\$271,477	\$237,361	\$ 34,116	14.4%
Royalties	32,429	27,941	4,488	16.1%
RAL participation fees	30,154	25,387	4,767	18.8%
Software sales	21,980	18,476	3,504	19.0%
Other	23,195	12,791	10,404	81.3%
Total revenues	379,235	321,956	57,279	17.8%
Compensation & benefits	150,765	141,407	(9,358)	-6.6%
Occupancy & equipment	43,954	40,005	(3,949)	-9.9%
Depreciation & amortization	8,982	14,918	5,936	39.8%
Cost of software sales	14,598	10,604	(3,994)	-37.7%
Bad debt expense	24,072	21,629	(2,443)	-11.3%
Supplies, freight & postage	7,903	8,352	449	5.4%
Other	30,627	27,022	(3,605)	-13.3%
Allocated corporate & shared costs	73,054	56,521	(16,533)	-29.3%
Total expenses	353,955	320,458	(33,497)	-10.5%
Pretax earnings	\$ 25,280	\$ 1,498	\$ 23,782	—
EBITDA	\$ 39,534	\$ 20,770	\$ 18,764	90.3%

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Tax preparation and related fees increased 14.4% to \$271.5 million for the three months ended January 31, 2002 compared to the prior year third quarter. This increase is primarily attributable to a 4.9% increase in company-owned returns prepared and a 10.3% increase in the average fee on those returns in the first month of the tax season. The overall increase in tax returns prepared is due to continued client demand during the early tax-filing season. The increase in average charge, in addition to a planned increase, is primarily due to the federal rebate credit and, to a lesser extent, changes in the child tax credit. It is not anticipated that the increase in the average fee associated with these rebates will continue throughout the remainder of the tax-filing season at the same levels as were experienced in January.

Royalties from franchises of \$32.4 million increased proportionally with the increase in tax preparation and related fees generated from company-owned offices. Franchise offices experienced an 11.5% increase in tax returns prepared to 1.4 million and an 11.3% increase in the average fee to \$106.03 from \$95.25 in the prior year.

Revenues from participation in RALs increased \$4.8 million or 18.8% over the prior year third quarter. This increase is attributable to a 15.7% increase in the number of funded RALs to 845,902, and an increase in pricing. The increased price was driven by an increase in the average refund amount and favorable changes in product mix resulting in a gross revenue per RAL of \$76.19 which is up 2.8% over last year's third quarter.

Software revenues increased 19.0% over the third quarter last year due to both an increase in price per unit and an increase in the number of units sold for TaxCut by H&R Block. Also contributing to the improvement was an increase in the number of legal software products sold.

During the first month of tax season, the Company's e-commerce initiatives have improved over the prior year with increases in the number of "Online Tax Preparation" (OTP), "Professional Tax Service" (PTS) and "Review" clients. Revenues from these initiatives are included in other revenues.

In addition, revenues from the Peace of Mind warranty program helped drive the increase in other revenues due to the increase in the number of warranties sold compared to last year. The increase in the number of warranties sold is due to both an increase in the number of returns prepared, as well as an increase in the percent of clients that purchased the warranty from 22% in the prior year, to 33% in the current period. The pretax impact of these revenues is minimal in the current year, as the net profit is deferred and recognized over the warranty term.

Total expenses of \$354.0 million during the three months ended January 31, 2002 were \$33.5 million, or 10.5% higher than last year. The increase in expenses is primarily attributable to increased direct expenses driven by higher tax preparation volume. These direct expenses include compensation and benefits, occupancy and equipment and bad debt expense related to tax return preparation. Offsetting the increase in bad debt expense related to tax return preparation, bad debt expense associated with participation in RALs declined \$4.2 million due to a more favorable collection rate on RALs this year caused by a problem with the IRS debt indicator last year. The IRS debt indicator identifies outstanding debts to the IRS or other federal government entities. Due to the problems with the debt indicator, bad debt expense was 49 basis points higher in January 2001 than during the remainder of the 2001 tax season. Also

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contributing to the increase in expenses were allocated corporate and shared costs related to marketing and technology development, which increased \$16.5 million. The higher marketing costs are due to the Company's increased advertising initiatives this year. Amortization expense benefited from the early adoption of SFAS No. 141 and 142, resulting in lower amortization of goodwill when compared to the prior year by \$2.9 million. Additionally, depreciation and amortization expense was lower by \$3.1 million this year due to certain assets becoming fully depreciated at the end of the prior fiscal year.

The pretax earnings of \$25.3 million for the quarter ended January 31, 2002 increased \$23.8 million from earnings of \$1.5 million in the same period a year ago.

U.S. Tax Operations — Three-month comparison to preceding quarter

	Fiscal Year 2002 Quarter		Variance Better/(worse)	
	3rd	2nd	\$	%
Tax preparation and related fees	\$271,477	\$ 11,396	\$ 260,081	—
Royalties	32,429	1,470	30,959	—
RAL participation fees	30,154	14	30,140	—
Software sales	21,980	722	21,258	—
Other	23,195	14,413	8,782	60.9%
Total revenues	379,235	28,015	351,220	—
Compensation & benefits	150,765	34,491	(116,274)	-337.1%
Occupancy & equipment	43,954	33,828	(10,126)	-29.9%
Depreciation & amortization	8,982	7,429	(1,553)	-20.9%
Cost of software sales	14,598	452	(14,146)	—
Bad debt expense	24,072	(1,042)	(25,114)	—
Supplies, freight & postage	7,903	3,151	(4,752)	-150.8%
Other	30,627	15,098	(15,529)	-102.9%
Allocated corporate & shared costs	73,054	38,833	(34,221)	-88.1%
Total expenses	353,955	132,240	(221,715)	-167.7%
Pretax earnings (loss)	\$ 25,280	\$(104,225)	\$ 129,505	—
EBITDA	\$ 39,534	\$ (92,309)	\$ 131,843	—

The improved results are due to the start of the U.S. tax-filing season in January 2002.

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U.S. Tax Operations — Nine-month comparison to prior year

	Nine months ended January 31,		Variance Better/(worse)	
	2002	2001	\$	%
Tax preparation and related fees	\$ 294,221	\$ 254,709	\$ 39,512	15.5%
Royalties	34,995	30,466	4,529	14.9%
RAL participation fees	30,450	25,587	4,863	19.0%
Software sales	23,475	19,591	3,884	19.8%
Other	44,088	29,356	14,732	50.2%
Total revenues	427,229	359,709	67,520	18.8%
Compensation & benefits	208,325	188,558	(19,767)	-10.5%
Occupancy & equipment	110,908	103,452	(7,456)	-7.2%
Depreciation & amortization	23,715	37,753	14,038	37.2%
Cost of software sales	15,369	11,237	(4,132)	-36.8%
Bad debt expense	23,911	22,029	(1,882)	-8.5%
Supplies, freight & postage	12,590	12,294	(296)	-2.4%
Other	54,672	50,215	(4,457)	-8.9%
Allocated corporate & shared costs	137,852	103,959	(33,893)	-32.6%
Total expenses	587,342	529,497	(57,845)	-10.9%
Pretax loss	\$(160,113)	\$(169,788)	\$ 9,675	5.7%
EBITDA	\$(121,977)	\$(120,904)	\$ (1,073)	-0.9%

Tax preparation and related fees increased 15.5% to \$294.2 million during the nine months ended January 31, 2002 compared to the nine months ended January 31, 2001. This increase is primarily attributable to the 4.9% increase in returns prepared in company-owned offices combined with the 10.3% increase in the average charge on those returns for the first month of the tax season. The average charge earned during the first month of the fiscal 2002 tax season was \$120.89 compared to \$109.63 earned last year.

Royalties from franchises of \$35.0 million increased proportionately with the increase in tax preparation and related fees generated from company-owned offices. Franchise offices experienced an 11.5% increase in tax returns prepared to 1.4 million during January 2002 compared to last year. The average charge in franchise offices increased 11.3% to \$106.03 during January 2002 as compared to the prior January.

Revenues from participation in RALs increased \$4.9 million, or 19.0%, to \$30.5 million compared to the prior year. This increase is attributable to a 15.7% increase in the number of funded RALs to 845,902 and an increase in pricing. The increased price was driven by an increase in the average refund amount and favorable changes in product mix resulting in a gross revenue per RAL of \$76.93 which is up 2.9% over last year.

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Software revenues increased 19.8% over last year due to both an increase in price per unit and an increase in the number of units sold for TaxCut by H&R Block. Also contributing to the improvement was an increase in the number of legal software products sold.

During the first month of the tax season, the Company's e-commerce initiatives have improved over the prior year with increases in the number of OTP, PTS and "Review" clients. Revenues from these initiatives are included in other revenues.

Contributing to the increase in other revenues were revenues from the Peace of Mind warranty program due to an increase in unit sales.

Total expenses increased 10.9% to \$587.3 million during the nine months ended January 31, 2002 compared to the nine months ended January 31, 2001. This increase is due to an increase of \$33.9 million in allocated and shared costs primarily related to marketing and technology development. The higher marketing costs are due to the Company's increased advertising initiatives this year. In addition, compensation and benefits, occupancy and equipment and bad debt expense associated with tax return preparation increased as a direct result of the increase in revenues. Offsetting these increases was lower depreciation and amortization expense of \$14.0 million due to certain assets becoming fully depreciated at the end of the prior fiscal year and \$8.5 million related to the early adoption of SFAS No. 141 and 142. In addition, bad debt expense associated with participation in RALs declined \$4.9 million due to a more favorable collection rate in the current year caused by a problem with the IRS debt indicator last year.

The pretax loss for the nine months ended January 31, 2002 was \$160.1 million, a decrease of 5.7% compared to the pretax loss of \$169.8 million for the nine months ended January 31, 2001.

International Tax Operations

This segment is primarily engaged in providing local tax return preparation, filing and related services in Canada, Australia and the United Kingdom. In addition, there are franchise offices in 9 countries that prepare U.S. tax returns for U.S. citizens living abroad. This segment served 2.3 million taxpayers in fiscal 2001. Tax-related service revenues include fees from company-owned tax offices and royalties from franchised offices.

As the Company's operations in this segment are transacted in the local currencies of the countries it operates in, the results can be affected by the translation into U.S. dollars. The continued strength of the U.S. dollar during the third quarter and year-to-date has the impact of lowering revenues, reducing losses and earnings.

Due to the seasonal nature of this segment's business, third quarter and year-to-date results are not indicative of the expected results for the entire fiscal year.

[Table of Contents](#)*International Tax Operations — Three-month comparison to prior year*

	Three months ended January 31,		Variance Better/(worse)	
	2002	2001	\$	%
Canada	\$ 2,637	\$ 3,003	\$ (366)	-12.2%
Australia	4,978	4,412	566	12.8%
United Kingdom	238	344	(106)	-30.8%
Overseas franchises	136	98	38	38.8%
Total revenues	7,989	7,857	132	1.7%
Canada	(5,308)	(6,170)	862	14.0%
Australia	1,151	715	436	61.0%
United Kingdom	(314)	(443)	129	29.1%
Overseas franchises	(220)	(143)	(77)	-53.8%
Allocated corporate & shared costs	(551)	(445)	(106)	-23.8%
Pretax loss	\$(5,242)	\$(6,486)	\$1,244	19.2%
EBITDA	\$(4,392)	\$(5,200)	\$ 808	15.5%

Revenues increased by 1.7% to \$8.0 million from \$7.9 million last year. The increase in Australian revenue is primarily being driven by an increase in tax returns prepared during the quarter. The decrease in Canadian revenue is driven by management's decision to further reduce the non-profitable early discounted return business. The decrease in United Kingdom revenue is driven by the closure of unprofitable offices. The overall strength in the U.S. dollar continues to negatively impact the revenue comparison.

The pretax loss improved by 19.2% to \$5.2 million compared to a loss of \$6.5 million in last year's third quarter. The improved performance is primarily attributed to reduced operating costs in Canada due to better cost control and increased tax return volume in Australia.

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International Tax Operations — Three-month comparison to preceding quarter

	Fiscal Year 2002 Quarter		Variance Better/(worse)	
	3rd	2nd	\$	%
Canada	\$ 2,637	\$ 2,400	\$ 237	9.9%
Australia	4,978	10,947	(5,969)	-54.5%
United Kingdom	238	239	(1)	-0.4%
Overseas franchises	136	123	13	10.6%
Total revenues	7,989	13,709	(5,720)	-41.7%
Canada	(5,308)	(4,018)	(1,290)	-32.1%
Australia	1,151	4,160	(3,009)	-72.3%
United Kingdom	(314)	(396)	82	20.7%
Overseas franchises	(220)	(160)	(60)	-37.5%
Allocated corporate & shared costs	(551)	(577)	26	4.5%
Pretax loss	\$(5,242)	\$ (991)	\$(4,251)	-429.0%
EBITDA	\$(4,392)	\$ (229)	\$(4,163)	—

Revenues decreased by \$5.7 million from the second quarter. The decrease is driven primarily by the end of the Australian tax season, which occurs during the second quarter.

The pretax loss increased by \$4.3 million over the second quarter. The primary drivers of the increased loss are the end of the Australian tax season and the preparation for the beginning of the Canadian tax season.

[Table of Contents](#)*International Tax Operations — Nine-month comparison to prior year*

	Nine months ended January 31,		Variance Better/(worse)	
	2002	2001	\$	%
Canada	\$ 8,294	\$ 8,837	\$ (543)	-6.1%
Australia	16,468	16,797	(329)	-2.0%
United Kingdom	1,109	1,391	(282)	-20.3%
Overseas franchises	659	630	29	4.6%
Total revenues	26,530	27,655	(1,125)	-4.1%
Canada	(12,772)	(15,310)	2,538	16.6%
Australia	3,661	4,209	(548)	-13.0%
United Kingdom	(889)	(1,034)	145	14.0%
Overseas franchises	(199)	(1)	(198)	—
Allocated corporate & shared costs	(1,687)	(1,556)	(131)	-8.4%
Pretax loss	\$(11,886)	\$(13,692)	\$ 1,806	13.2%
EBITDA	\$ (9,506)	\$ (9,850)	\$ 344	3.5%

Revenues decreased by 4.1% to \$26.5 million from \$27.7 million last year. The revenue decrease is primarily driven by the continued strength of the U.S. dollar and the closure of unprofitable offices in the United Kingdom.

The pretax loss improved 13.2% to \$11.9 million from \$13.7 million last year. This improvement is primarily attributed to better business management and cost control in Canada. The Australian results were negatively impacted by a poor beginning of the tax season and additional costs attributed to the opening of thirteen new offices in July.

Mortgage Operations

Through Option One Mortgage Corporation and H&R Block Mortgage Corporation, this segment offers a wide range of home mortgage products. This segment is primarily engaged in the origination, servicing, and sale of nonconforming and conforming mortgage loans. This segment mainly offers, through a network of mortgage brokers, a flexible product line to borrowers who are creditworthy but do not meet traditional underwriting criteria. Conforming mortgage loan products, as well as the same flexible product line available through brokers, are offered through some H&R Block Financial Advisors branch offices and H&R Block Mortgage Corporation retail offices. One of the primary sources of revenue from this segment is the recognition of gains on sales of mortgage loans. This segment also holds residual interests in securitized mortgage loans in which cash flows are received over the life of the loans. The subsequent securitization of these residual interests in the form of a net interest margin transaction (NIM) results in the receipt of a substantial portion of the cash from the residual at the closing of the NIM transaction, rather than over the actual life of the loans.

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Management utilizes operating profit margin to evaluate this segment's performance. Operating profit margin is defined as pretax earnings before goodwill amortization divided by mortgage fundings.

Mortgage Operations — Quarterly Operating Statistics

(in 000s except # of loans originated and servicing portfolio)

	Three months ended January 31,			October 31,	
	2002	2001	% change	2001	% change
# of loans originated:					
Wholesale	17,344	12,443	39.4%	18,172	-0.5%
Retail	4,056	2,424	67.3%	3,352	21.0%
Total	21,400	14,867	43.9%	21,524	-0.1%
Volume of loans originated:					
Wholesale	\$2,346,687	\$1,297,435	80.9%	\$2,206,041	6.4%
Retail	549,112	294,241	86.6%	438,158	25.3%
Total	\$2,895,799	\$1,591,676	81.9%	\$2,644,199	9.5%
Loan sales	\$2,868,690	\$1,547,169	85.4%	\$2,618,065	9.6%
# of loans serviced	202.4	172.6	17.3%	184.8	9.5%
Average servicing portfolio (billions)	\$ 20.3	16.2	24.9%	19.5	4.1%

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Mortgage Operations — Three-month comparison to prior year

	Three months ended January 31,		Variance Better/(worse)	
	2002	2001	\$	%
Gain on sale of mortgage loans	\$107,882	\$ 63,168	\$ 44,714	79.8%
Interest income	36,850	20,491	16,359	79.8%
Loan servicing	34,335	29,579	4,756	16.1%
Other	684	931	(247)	-26.5%
Total revenues	179,751	114,169	65,582	57.4%
Compensation & benefits	45,121	33,555	(11,566)	-34.5%
Variable servicing & processing	26,252	9,825	(16,427)	-167.2%
Occupancy & equipment	7,557	5,898	(1,659)	-28.1%
Interest expense	937	6,661	5,724	85.9%
Bad debt expense	5,386	4,116	(1,270)	-30.8%
Amortization of acquisition intangibles	—	3,394	3,394	100.0%
Other	15,667	12,147	(3,520)	-29.0%
Allocated corporate & shared costs	1,404	522	(882)	-169.0%
Total expenses	102,324	76,118	(26,206)	-34.4%
Pretax earnings	\$ 77,427	\$ 38,051	\$ 39,376	103.5%
EBITDA	\$ 81,128	\$ 43,633	\$ 37,495	85.9

Revenues increased by \$65.6 million or 57.4%, to \$179.8 million, for the three months ended January 31, 2002 compared to the same period last year. The increase is primarily due to an increase in production volume, higher excess retained interest spread earned, a favorable secondary market environment and a larger servicing portfolio.

Revenues related to the sale of mortgage loans increased by \$44.7 million or 70.8%, to \$107.9 million, over the comparable prior year period resulting from a significant increase in loan origination volume. The increase in loan production is a result of an increase in the average loan size, an increase in the size of the sales force, an improvement in the closing ratio and to a lesser extent, the declining interest rate environment. The average loan size increased to \$135 thousand from \$107 thousand in the prior year's third quarter due to emphasis being placed on originating higher average loan balances. Partially offsetting gains on sales of mortgage loans was the decline in the total execution price representing sale of mortgage loans. The total execution price for the three months ended January 31, 2002 was 3.82% compared to 4.24% for the same period last year. The decline in the execution price is primarily attributable to lower interest rates on the underlying loans, which yield a lower premium. In addition, losses of \$13.1 million were recorded in the third quarter of fiscal year 2002 related to adverse changes in the timing of cash flows on certain residual interests in accordance with EITF 99-20.

Interest income for the three months ended January 31, 2002 increased by \$16.4 million or 79.8%, to \$36.9 million, over the comparable prior year period. This increase is primarily the

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result of (1) a higher average loan receivable balance from the owner trust resulting from higher volume and the timing of the third-party securitizations; (2) higher interest accretion on residual interests as a result of the mark-to-market adjustment recorded in the second quarter of fiscal 2002; and (3) the declining interest rate environment since new non-prime loan originations are far less sensitive to such declines as compared to the interest rates charged on the related warehouse line borrowings, which directly reflect changes in market interest rates and therefore improves the excess retained interest spread earned. The excess retained interest spread for the three months ended January 31, 2002 was 6.05% compared to 2.38% for the same period last year.

Loan servicing revenues increased by \$4.8 million or 16.1%, to \$34.3 million, for the three months ended January 31, 2002, as compared to the same period last year. The increase is due to a higher average loan servicing portfolio balance.

Pretax earnings increased by \$39.4 million or 103.5%, to \$77.4 million, for the three months ended January 31, 2002. The improved performance is primarily due to the increase in revenues as discussed above. In addition, the higher loan volumes helped drive a decline in the net cost of origination. The increase in variable servicing and processing expense is due to the increase in the size of the servicing portfolio and a \$8.5 million write-down of mortgage servicing rights (MSR) taken in the third quarter to reflect a change in the assumptions underlying the related loan portfolios. The increase in compensation and benefits is due to an increase in the number of employees supporting the increase in volumes. The third quarter also benefited by \$3.4 million compared to the third quarter of fiscal year 2001 due to the adoption of SFAS 141 and 142. Mortgage operations' operating profit margin of 2.67% improved 7 basis points from 2.60% in the prior year.

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Mortgage Operations — Three-month comparison to preceding quarter

	Fiscal Year 2002 Quarter		Variance Better/(worse)	
	3rd	2nd	\$	%
Gain on sale of mortgage loans	\$107,882	\$118,186	\$(10,304)	-8.7%
Interest income	36,850	27,995	8,855	31.6%
Loan servicing	34,335	33,570	765	2.3%
Other	684	1,070	(386)	-36.1%
Total revenues	179,751	180,821	(1,070)	-0.6%
Compensation & benefits	45,121	42,695	(2,426)	-5.7%
Variable servicing & processing	26,252	15,510	(10,742)	-69.3%
Occupancy & equipment	7,557	7,581	24	0.3%
Interest expense	937	1,394	457	32.8%
Bad debt expense	5,386	5,450	64	1.2%
Amortization of acquisition intangibles	—	—	—	—
Other	15,667	14,478	(1,189)	-8.2%
Allocated corporate & shared costs	1,404	522	(882)	-169.0%
Total expenses	102,324	87,630	(14,694)	-16.8%
Pretax earnings	\$ 77,427	\$ 93,191	\$(15,764)	-16.9%
EBITDA	\$ 81,128	\$ 96,942	\$(15,814)	-16.3%

Revenues decreased slightly by \$1.1 million or .6%, to \$179.8 million, for the three months ended January 31, 2002 compared to the second quarter of fiscal 2002. Revenues related to the sale of mortgage loans decreased due to a decrease in overall execution price on loan sales. The total execution price representing the sale of mortgage loans for the three months ended January 31, 2002 was 3.82% compared to 5.08% for the three months ended October 31, 2001. The decline in the execution price is primarily attributable to lower interest rates on the underlying loans, which yield a lower premium. In addition, losses of \$13.1 million were recorded in the third quarter related to adverse changes in the timing of cash flows on certain residual interests compared to \$7.7 million recorded in the second quarter. These decreases were somewhat offset by an increase in interest income of \$8.9 million over the second quarter. This increase is primarily the result of the lower interest rate environment, which improves the excess retained interest spread earned. The excess retained interest spread for the three months ended January 31, 2002 was 6.05% compared to 5.21% for the three months ended October 31, 2001. In addition, higher interest accretion on residual interests was recorded in the third quarter as a result of the mark-to-market adjustment recorded in the second quarter of fiscal 2002.

Loan servicing revenues increased by \$765 thousand or 2.3%, to \$34.3 million, for the three months ended January 31, 2002, as compared to the second quarter. The increase reflects a higher average loan servicing portfolio balance.

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Pretax earnings decreased by \$15.8 million or 16.9%, to \$77.4 million for the three months ended January 31, 2002. The reduction in performance is primarily due to a write-down in MSRs and the decrease in revenues as discussed above. Mortgage operations' operating profit margin of 2.67% declined 85 basis points from 3.52% in the second quarter of fiscal 2002.

Mortgage Operations — Year-to-date Operating Statistics

(in 000s except # of loans originated and servicing portfolio)

	Nine months ended January 31,		% change
	2002	2001	
# of loans originated:			
Wholesale	53,515	35,645	50.1%
Retail	11,103	6,734	64.9%
Total	64,618	42,379	52.5%
Volume of loans originated:			
Wholesale	\$6,673,256	\$3,710,545	79.8%
Retail	1,490,688	767,607	94.2%
Total	\$8,163,944	\$4,478,152	82.3%
Loan sales	\$8,191,794	\$4,678,265	75.1%
# of loans serviced	191.7	162.8	17.7%
Average servicing portfolio (billions)	\$ 19.5	\$ 15.4	26.5%

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Mortgage Operations — Nine-month comparison to prior year

	Nine months ended January 31,		Variance Better/(worse)	
	2002	2001	\$	%
Gain on sale of mortgage loans	\$322,302	\$162,807	\$159,495	98.0%
Interest income	84,039	35,074	48,965	139.6%
Loan servicing	100,378	79,081	21,297	26.9%
Other	2,178	2,497	(319)	-12.8%
Total revenues	508,897	279,459	229,438	82.1%
Compensation & benefits	129,588	88,476	(41,112)	-46.5%
Variable servicing & processing	53,282	26,723	(26,559)	-99.4%
Occupancy & equipment	21,175	16,923	(4,252)	-25.1%
Interest expense	4,126	10,748	6,622	61.6%
Bad debt expense	17,452	12,309	(5,143)	-41.8%
Amortization of acquisition intangibles	—	10,183	10,183	100.0%
Other	43,671	32,624	(11,047)	-33.9%
Allocated corporate & shared costs	2,206	1,459	(747)	-51.2%
Total expenses	271,500	199,445	(72,055)	-36.1%
Pretax earnings	\$237,397	\$ 80,014	\$157,383	196.7%
EBITDA	\$248,005	\$ 96,975	\$151,030	155.7%

Revenues increased by \$229.4 million or 82.1%, to \$508.9 million, for the nine months ended January 31, 2002 compared to the same period last year. The increase is primarily due to an increase in production volume, higher excess retained interest spread earned, a favorable secondary market environment and a larger servicing portfolio.

Revenues related to the sale of mortgage loans increased by \$159.5 million or 98.0% to \$322.3 million over the prior year period resulting from a significant increase in loan origination volume, as well as better pricing execution on mortgage loan sales. During the nine months ended January 31, 2002, the Company's loan origination volume increased 82.3% over the same period last year. The increase in loan production is a result of an increase in the average loan size, an increase in the size of the sales force, an improvement in the closing ratio and to a lesser extent, the declining interest rate environment. The total execution price for the nine months ended January 31, 2002 was 4.74% compared to 3.42% for the same period last year. The better execution price is partially attributable to the declining interest rate environment that has the effect of widening spreads on mortgage loan sales. Somewhat offsetting the increase in the gain on sale, losses of \$29.6 million were recorded in the nine months ended January 31, 2002 related to adverse changes in the timing and amount of cash flows on certain residual interests.

Interest income for the nine months ended January 31, 2002 totaled \$84.0 million, an increase of \$49.0 million or 139.6% over the comparable prior year period. This increase is primarily the result of the declining interest rate environment, which improves the excess retained interest

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spread earned. The excess retained interest spread for the nine months ended January 31, 2002 was 5.36% compared to 2.39% for the same period last year. Also contributing to the increase in interest income is higher interest accretion on residual interests during fiscal year 2002.

Servicing revenues increased \$21.3 million to \$100.4 million for the nine months ended January 31, 2002 as compared to the same period last year. The increase reflects a higher average loan servicing portfolio balance. The average servicing portfolio for the nine-month period increased 26.5% compared to the same period last year.

Pretax earnings increased \$157.4 million or 196.7%, to \$237.4 million for the nine months ended January 31, 2002. The improved performance is primarily due to the increase in revenues as discussed above. In addition, the higher loan volumes helped drive a decline in the net cost of origination. The increase in compensation and benefits is due to an increase in the number of employees supporting the increase in volumes. The increase in variable servicing and processing expense is due to the increase in the size of the servicing portfolio and a \$8.5 million write-down of MSR's taken in fiscal 2002 to reflect a change in the assumptions underlying the related loan portfolios. The nine months ended January 31, 2002 also benefited by \$10.2 million compared to the prior year from the adoption of SFAS 141 and 142. Mortgage operations' operating profit margin of 2.91% improved 90 basis points from 2.01% in the prior year.

Investment Services

This segment is primarily engaged in offering investment advice and services through H&R Block Financial Advisors, Inc., a full-service securities broker. Financial planning and investment advice and services are offered through H&R Block Financial Advisors branch offices, and stocks, bonds, mutual funds and other products and securities are offered through a nationwide network of registered representatives at the same locations.

Results for all periods are down primarily due to bearish market conditions. The economy began to slow down in the summer of 2000 and continued to decline in the winter months and into calendar year 2001. The September 11th tragedies exacerbated the decline in investor confidence, and, as a result of these events, the exchanges were closed for four days. Similar to the rest of the industry, Investment services has been experiencing a decline in trading volumes. In addition, customer margin balances have continued to significantly decline throughout fiscal year 2002. Related to the declining margin balances, interest expense, which is mainly comprised of interest paid on customer credit balances and interest paid for securities lending which is used to finance customer margin balances, has declined in all periods presented. The Company measures the profitability of margin lending activities through net interest margin. Net interest margin is defined as interest earned on the average margin loan balance, less the cost of funding these loans. Revenues are closely linked with the overall performance of market indices and management believes that when investors are once again confident in the market, margin lending and stock transactions will increase, which will positively affect this segment's results.

Additionally, decimalization replaced fractional trading for listed equities on January 29, 2001 and for NASDAQ equities on April 9, 2001. The impact of decimalization has reduced the dealer spread between the bid and ask prices, reducing revenue opportunities.

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Products. Continuing efforts to become an advisory-based relationship provider, a number of key initiatives occurred despite the difficult financial and market environment. Annuities were added to the product line beginning in January 2001. The Company currently conducts annuity business in twelve states, but is licensed in thirty-nine states, and will continue to add additional states to distribute the product. In the fall of 2000, the Company began offering online accounts to its customers. The number of online trades represents 8.0% of total trades for the quarter and the nine months ended January 31, 2002. Accounts with cash management features like the VISA Gold ATM/Check card, which offers customers the choice of a 1% cash rebate on every VISA Gold purchase or airline miles that can be redeemed on any airline, were offered for the first time in July 2001. In the third quarter of fiscal 2002, the Company launched fee-based services. The Investment services segment has yet to experience significant revenues from the majority of these initiatives.

Investment Services — Quarterly Operating Statistics

(actual amounts, except as indicated)

	Three months ended			October 31,	
	January 31,			2001	% change
	2002	2001	% change		
Customer trades	402,016	598,754	-32.9%	377,094	6.6%
Customer daily average trades	6,241	9,816	-36.4%	6,285	-0.7%
Average commission per trade	\$ 64.61	\$ 68.61	-5.8%	\$ 63.17	2.3%
Number of active accounts	602,618	605,221	-0.4%	608,594	-1.0%
Average trades per active account per quarter	0.67	0.99	-32.6%	0.62	8.1%
Average trades per active accts per year (annualized)	2.67	3.96	-32.6%	2.48	7.7%
Ending balance of assets under administration (billions)	\$ 27.2	\$ 36.3	-25.0%	\$ 27.1	0.7%
Average assets per active acct	\$ 45,191	\$ 60,028	-24.7%	\$ 44,448	1.7%
Ending debit balances (000s)	\$878,000	\$1,902,200	-53.8%	\$888,000	-1.1%
Ending credit balances (000s)	\$865,000	\$ 933,300	-7.3%	\$772,000	12.0%

[Table of Contents](#)*Investment Services — Three-month comparison to prior year*

	Three months ended January 31,		Variance Better/(worse)	
	2002	2001	\$	%
Commission & fee income	\$ 37,496	\$ 60,190	\$(22,694)	-37.7%
Margin interest income	11,642	50,381	(38,739)	-76.9%
Other	11,947	7,593	4,354	57.3%
Total revenues	61,085	118,164	(57,079)	-48.3%
Compensation & benefits	33,822	41,980	8,158	19.4%
Interest expense	2,095	26,280	24,185	92.0%
Occupancy & equipment	5,903	6,547	644	9.8%
Depreciation & amortization	5,314	4,434	(880)	-19.8%
Commission, floor brokerage & fees	1,328	2,062	734	35.6%
Amortization of acquisition intangibles	7,362	11,387	4,025	35.3%
Other	12,030	9,218	(2,812)	-30.5%
Allocated corporate & shared costs	5,531	8,878	3,347	37.7%
Total expenses	73,385	110,786	37,401	33.8%
Pretax earnings (loss)	\$(12,300)	\$ 7,378	\$(19,678)	—
EBITDA	\$ 1,014	\$ 23,756	\$(22,742)	-95.7%

Investment services revenues for the third quarter of fiscal year 2002 compared to the third quarter of 2001 decreased 48.3% to \$61.1 million from \$118.2 million. The overall decrease in revenues can be attributed primarily to decreased customer trading and margin lending activities.

Pretax results for Investment services for the third quarter of fiscal year 2002 compared to 2001 decreased \$19.7 million to a loss of \$12.3 million from pretax earnings of \$7.4 million. The decrease in pretax results is primarily attributable to the decline in customer trading and customer margin activity. Total expenses decreased by 33.8% to \$73.4 million from \$110.8 million. As a result of the adoption of SFAS 141 and 142, Investment services amortization of acquired intangible assets declined by \$4.0 million.

Commissions and fees. Total customer trades for the third quarter of fiscal year 2002 were down 32.9%. Commission and fee income decreased 37.7% to \$37.5 million from \$60.2 million. The average commission per trade declined 5.8%, reflecting lower dollar volume trades as compared to the previous year's similar time period. Overall principal trading revenue, including equities, fixed income trading, underwriting, and unit investment trusts, decreased 37.4% to \$10.2 million from \$16.3 million in the third quarter last year. Underwriting revenues increased by \$1.9 million or 157.9% from the previous third quarter, primarily due to increased demand for Trust Preferred Debt Securities. More clients have shown a greater interest in fixed rate capital securities due to the current equity market conditions. More than offsetting this increase was an 88.9% or \$3.0 million decline in equity unit investment trusts (UIT) and a decline of 82.1%, or \$6.8 million in equity trading.

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Margin Lending. Customer margin balances fell from an average of \$2.3 billion in the third quarter of 2001 to an average of \$861 million for the same time period in fiscal 2002. The decrease in margin interest revenue was primarily attributable to the decline in margin balances and to a lesser extent, the declining interest rate environment. At the end of the third quarter of fiscal 2002, the Federal Funds Rate declined 375 basis points to 1.75% from 5.5% at the end of the third quarter of fiscal 2001. Net interest margin declined from 1.70% for the three months ended January 31, 2001 to 0.58% for the three months ended January 31, 2002.

Interest Expenditures. The largest decrease in expenses for the third quarter of fiscal 2002, as compared to the third quarter of fiscal 2001, was interest expense. Interest expense decreased 92.0% to \$2.1 million from \$26.3 million. Interest paid on customer credit balances decreased 75.6% to \$1.9 million from \$7.8 million. The decrease is due to smaller customer balances and lower interest rates. Customer balances fell from an average of \$871 million in the third quarter of fiscal 2001 to an average of \$849 million for the same time period for 2002, a decline of 2.5%. Interest paid on securities lending decreased 98.8% to \$223 thousand from \$18.5 million. The smaller securities lending balance reflects the decline in the margin balance, as securities lending is used to finance margin balances, which have declined significantly as noted above.

Investment Services — Three-month comparison to preceding quarter

	Fiscal Year 2002 Quarter		Variance Better/(worse)	
	3rd	2nd	\$	%
Commission & fee income	\$ 37,496	\$41,375	\$(3,879)	-9.4%
Margin interest income	11,642	17,222	(5,580)	-32.4%
Other	11,947	6,230	5,717	91.8%
Total revenues	61,085	64,827	(3,742)	-5.8%
Compensation & benefits	33,822	33,155	(667)	-2.0%
Interest expense	2,095	4,267	2,172	50.9%
Occupancy & equipment	5,903	7,412	1,509	20.4%
Depreciation & amortization	5,314	4,803	(511)	-10.6%
Commission, floor brokerage & fees	1,328	1,802	474	26.3%
Amortization of acquisition intangibles	7,362	7,381	19	0.3%
Other	12,030	13,414	1,384	10.3%
Allocated corporate & shared costs	5,531	1,728	(3,803)	-220.1%
Total expenses	73,385	73,962	577	0.8%
Pretax loss	\$(12,300)	\$(9,135)	\$(3,165)	-34.6%
EBITDA	\$ 1,014	\$ 3,582	\$(2,568)	-71.7%

Investment services revenue for the third quarter of fiscal year 2002 compared to the second quarter of fiscal 2002 decreased 5.8% to \$61.1 million from \$64.8 million. The overall decrease in revenues can be attributed primarily to decreased principal trading and margin lending activities.

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The pretax loss for Investment services for the third quarter of fiscal 2002, compared to the second quarter of fiscal 2002 increased 34.6% to a loss of \$12.3 million from a loss of \$9.1 million. The increase is primarily attributed to the decline in customer trading and customer margin activity. Total expenses decreased by 0.8% to \$73.4 million from \$74.0 million.

Commissions and fees. Total customer trades for the third quarter of fiscal 2002 increased 6.6% over the second quarter. Commission and fee income decreased 9.4% to \$37.5 million from \$41.4 million. The average commission per trade remained fairly stable over the two quarters. Commission rates charged to customers were increased in October 2001. Overall principal trading revenue, including equities, fixed income trading, underwriting, and unit investment trusts, decreased 14.0% to \$10.2 million. Underwriting revenues decreased by \$2.0 million or 39.1% from the second quarter of fiscal 2002, primarily due to the decrease in demand for new Trust Preferred Debt Securities. Revenue from trading equity securities decreased \$591 thousand or 28.4%.

Margin Lending. Customer margin balances have declined from an average of \$1.1 billion in the second quarter of fiscal 2002 to an average of \$861 million in the third quarter. The decrease in margin interest revenue was primarily attributed to the decline in margin balances and to a lesser extent the declining interest rate environment. At the end of the third quarter, the Federal Funds Rate was 1.75%, a decrease of 75 basis points from the end of the second quarter. Net interest margin declined from 1.08% at the end of the second quarter to 0.58% at the end of the third quarter of fiscal 2002.

Interest Expenditures. The largest decrease in expenses for the third quarter of fiscal year 2002, as compared to the second quarter, was interest expense. Interest expense decreased 50.9% to \$2.1 million from \$4.3 million. Interest paid on customer credit balances decreased 41.8% to \$1.9 million from \$3.2 million. The decrease is due to lower interest rates. Balances increased from an average of \$756 million in the second quarter of fiscal 2002 to an average of \$849 million in the third quarter, an increase of 11.0%. Interest paid on securities lending decreased 78.4% to \$223 thousand from \$1.0 million. Since stock loans are used to finance the margin-lending portfolio, the decline in the portfolio has reduced the need for this financing.

Investment services has been undergoing the process of re-engineering and consolidation efforts (with corporate departments) to try to streamline certain activities. As a result of these efforts, a reduction in workforce occurred in October 2001 and the Company incurred severance charges of approximately \$1.7 million in the second quarter.

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Investment Services — Year-to-date Operating Statistics

(actual amounts, except as indicated)

	Nine months ended January 31,		Percent change
	2002	2001	
Customer trades	1,168,453	1,871,667	-37.6%
Customer daily average trades	6,215	9,956	-37.6%
Average commission per trade	\$ 63.35	\$ 67.42	-6.0%
Number of active accounts	602,618	605,221	-0.4%
Average trades per active acct per qtr	0.65	1.03	-36.9%
Average trades per active accounts per year (annualized)	2.6	4.12	-36.9%
Ending balance of assets under administration (billions)	\$ 27.2	\$ 36.3	-25.0%
Average assets per active account	\$ 45,191	\$ 60,028	-24.7%
Ending debit balances (000s)	\$ 878,000	\$1,902,200	-53.8%
Ending credit balances (000s)	\$ 865,000	\$ 933,300	-7.3%

Investment Services — Nine-month comparison to prior year

	Nine months ended January 31,		Variance Better/(worse)	
	2002	2001	\$	%
Commission & fee income	\$120,647	\$190,326	\$ (69,679)	-36.6%
Margin interest income	50,819	168,925	(118,106)	-69.9%
Other	23,371	21,153	2,218	10.5%
Total revenues	194,837	380,404	(185,567)	-48.8%
Compensation & benefits	98,477	126,009	27,532	21.8%
Interest expense	13,007	92,655	79,648	86.0%
Occupancy & equipment	21,004	20,541	(463)	-2.3%
Depreciation & amortization	15,099	12,752	(2,347)	-18.4%
Commission, floor brokerage & fees	4,750	8,642	3,892	45.0%
Amortization of acquisition intangibles	22,124	34,414	12,290	35.7%
Other	38,581	39,009	428	1.1%
Allocated corporate & shared costs	9,328	15,542	6,214	40.0%
Total expenses	222,370	349,564	127,194	36.4%
Pretax earnings (loss)	\$ (27,533)	\$ 30,840	\$ (58,373)	—
EBITDA	\$ 11,413	\$ 79,823	\$ (68,410)	-85.7%

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Investment services revenue for the nine months ended January 31, 2002 compared to the same period last year decreased 48.8% to \$194.8 million from \$380.4 million. The overall decrease in revenues can be attributed primarily to decreased customer trading and margin lending activities. Pretax results for Investment services for the nine months ended January 31, 2002 compared to the prior year decreased \$58.4 million to a loss of \$27.5 million from pretax earnings of \$30.8 million. The decrease in pretax results is primarily attributed to the decline in customer trading and customer margin activity. Total expenses decreased by 36.4% to \$222.4 million from \$349.6 million. As a result of the adoption of SFAS 141 and 142, Investment services amortization of acquired intangible assets declined by \$12.3 million.

Trading Volume. Total customer trades for the first nine months of 2002 declined 37.6% compared to the prior year. Commission and fee income decreased 36.6% to \$120.6 million from \$190.3 million. The average commission per trade declined 6.0% reflecting lower dollar volume trades as compared to the previous year's similar time period.

Margin Lending. Customer margin balances have declined from an average of \$2.6 billion for the nine months ended January 31, 2001 to an average of \$1.1 billion for the same period in fiscal 2002. The decrease in margin interest revenue was primarily attributed to the decline in margin balances and to a lesser extent, lower interest rates. At the beginning of the first quarter of fiscal 2001, the Federal Funds Rate was 6.0% and by the end of the third quarter of fiscal 2002, the Federal Funds Rate was 1.75%, a decrease of 425 basis points. Net interest margin declined from 1.71% for the nine months ended January 2001 to 1.06% for the nine months ended January 2002.

Principal Trading. Overall principal trading revenue, including equities, fixed income trading, underwriting, and unit investment trusts, decreased 29.7% to \$35.3 million. Underwriting revenues increased by \$9.3 million or 301.9% from the nine months ended January 31, 2001, primarily due to increased demand for Trust Preferred Debt Securities. More clients have shown a greater interest in fixed rate capital securities due to the current equity market conditions. More than offsetting this increase was an 88.0% or \$14.3 million decline in equity UITs and a decline of 74.4% or \$14.8 million in equity trading. Client demand for equity UITs fell as many equity UITs have taken sharp down turns from initial offering prices in late fiscal 2000 and early fiscal 2001.

Interest Expenditures. The largest decrease in expenses for the first nine months of fiscal year 2002, as compared to the prior year, was interest expense. Interest expense decreased 86.0% to \$13.0 million from \$92.7 million. Interest paid on customer credit balances decreased 61.7% to \$9.5 million from \$24.8 million. The decrease is due to smaller customer balances and lower interest rates. Balances fell from an average of \$910.1 million in the first nine months of fiscal 2001 to an average of \$798.0 million for fiscal 2002, a decline of 12.3%. Interest paid on securities lending decreased 94.9% to \$3.5 million from \$67.8 million. In addition to a decline in interest rates, the lower expense is attributable to the decline in customer margin balances. Since stock loans are used to finance the margin-lending portfolio, the decline in the portfolio has reduced the need for this financing.

Investment services has been undergoing process re-engineering and consolidation efforts (with corporate departments) to streamline certain activities. As a result of these efforts, a reduction in

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workforce occurred in October 2001 and the Company incurred severance charges of approximately \$1.7 million in fiscal 2002.

Business Services

This segment is primarily engaged in providing accounting, tax and consulting services to business clients and tax, estate planning, financial planning, wealth management and insurance services to individuals.

In December 2001, the segment made two acquisitions that provide significant opportunities to capitalize on existing client relationships by providing value-added services. The Company acquired a controlling interest in MyBenefitSource, an integrated payroll and benefits processing company, with an option to acquire the remaining shares. The Company also acquired 100% of Equico Resources, LLC ("Equico"), a valuation, merger and acquisition consulting company. These acquisitions were accounted for as purchases, and the results of operations for these businesses have been consolidated in the segment's financial results since acquisition. Total cash payments related to these acquisitions totaled \$28.5 million. The purchase agreements also provide for possible future contingent consideration based on achieving certain revenue, profitability and working capital targets over the next five years, and such consideration will be treated as purchase price when paid. The initial purchase price will be allocated to the net assets acquired based upon their fair values upon completion of a valuation.

In addition, the segment has acquired several accounting firms during fiscal year 2002 which have initiated a geographic presence in the Seattle and San Francisco metropolitan areas and expanded its existing presence in the New York City and Dallas metropolitan areas.

The introduction of Wealth Management services is part of a focus to provide a fully integrated approach to clients to further their business and personal financial objectives. Revenues from the initiative consist of fees relating to assets managed for clients and revenue from insurance carriers relating to alliances to provide life insurance solutions to clients. Revenues from Wealth Management services declined in the current quarter compared to due to the timing of revenues earned from insurance carriers.

A recession in manufacturing and a continuing cautious business environment have contributed to weakness in the segment's business consulting services in the current fiscal year, which is expected to continue at least through the end of the fiscal year.

Due to the seasonal nature of this segment's business, third quarter and year-to-date results are not indicative of the expected results for the entire fiscal year.

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Business Services — Three-month comparison to prior year

	Three months ended January 31,		Variance Better/(worse)	
	2002	2001	\$	%
Accounting, consulting & tax	\$79,784	\$76,537	\$ 3,247	4.2%
Product sales	4,742	5,654	(912)	-16.1%
Management fee income	3,150	4,050	(900)	-22.2%
Other	6,518	6,488	30	0.5%
Total revenues	94,194	92,729	1,465	1.6%
Compensation & benefits	64,311	64,288	(23)	—
Occupancy & equipment	4,426	4,244	(182)	-4.3%
Depreciation & amortization	1,626	1,539	(87)	-5.7%
Marketing & advertising	1,249	1,389	140	10.1%
Bad debt expense	3,457	2,721	(736)	-27.0%
Amortization of acquisition intangibles	3,569	8,477	4,908	57.9%
Other	13,165	8,919	(4,246)	-47.6%
Allocated corporate & shared costs	611	383	(228)	-59.5%
Total expenses	92,414	91,960	(454)	-0.5%
Pretax earnings	\$ 1,780	\$ 769	\$ 1,011	131.5%
EBITDA	\$ 6,987	\$10,831	\$(3,844)	-35.5%

Business services revenues of \$94.2 million increased 1.6% from \$92.7 million in the quarter ended January 31, 2001. Revenues from acquisitions, net of revenue decreases from sales of businesses, accounted for a \$4.9 million increase in revenues. Revenues from existing businesses decreased \$3.4 million as growth in tax consulting and other services was offset by a slowdown in business consulting and wealth management revenues.

Pretax earnings improved \$1.0 million as compared to the prior year quarter to \$1.8 million for the quarter ended January 31, 2002. Pretax earnings improved by \$5.2 million as a result of the adoption of SFAS 141 and 142. Pretax results were negatively affected by \$2.1 million related to expected operating losses of two new acquisitions made during the third quarter, as well as accounting firm acquisitions made during the first nine months, which operate at a loss during this time period. Also impacting the comparison to the prior year, pretax earnings for fiscal 2001 included a gain on the sale of the assets of KSM Business Services, Inc. of \$1.9 million.

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Business Services — Three-month comparison to preceding quarter

	Fiscal Year 2002 Quarter		Variance Better/(worse)	
	3rd	2nd	\$	%
Accounting, consulting & tax	\$79,784	\$79,059	\$ 725	0.9%
Product sales	4,742	4,950	(208)	-4.2%
Management fee income	3,150	3,150	—	—
Other	6,518	4,620	1,898	41.1%
Total revenues	94,194	91,779	2,415	2.6%
Compensation & benefits	64,311	62,496	(1,815)	-2.9%
Occupancy & equipment	4,426	4,491	65	1.4%
Depreciation & amortization	1,626	1,521	(105)	-6.9%
Marketing & advertising	1,249	1,307	58	4.4%
Bad debt expense	3,457	1,617	(1,840)	-113.8%
Amortization of acquisition intangibles	3,569	3,255	(314)	-9.6%
Other	13,165	14,103	938	6.7%
Allocated corporate & shared costs	611	435	(176)	-40.5%
Total expenses	92,414	89,225	(3,189)	-3.6%
Pretax earnings	\$ 1,780	\$ 2,554	\$ (774)	-30.3%
EBITDA	\$ 6,987	\$ 7,347	\$ (360)	-4.9%

Business services revenues of \$94.2 million increased 2.6% from \$91.8 million in the quarter ended October 31, 2001. Revenues from acquisitions increased sequential revenues by \$4.4 million. Revenues from existing businesses decreased \$2.0 million as growth in tax consulting and other services was offset by a slowdown in business consulting, accounting and tax services, and wealth management revenues.

Pretax earnings declined from \$2.6 million in the quarter ended October 31, 2001 to \$1.8 million earnings for the current quarter. After taking into consideration the expected losses related to the two new acquisitions of \$2.1 million, pretax income increased \$1.3 million. This increase is primarily due to increased earnings from tax consulting which is partially offset by decreased earnings from wealth management.

[Table of Contents](#)*Business Services — Nine-month comparison to prior year*

	Nine months ended January 31,		Variance Better/(worse)	
	2002	2001	\$	%
Accounting, consulting & tax	\$223,744	\$207,184	\$ 16,560	8.0%
Product sales	15,057	15,621	(564)	-3.6%
Management fee income	8,550	9,217	(667)	-7.2%
Other	18,604	15,071	3,533	23.4%
Total revenues	265,955	247,093	18,862	7.6%
Compensation & benefits	184,970	159,529	(25,441)	-15.9%
Occupancy & equipment	14,336	19,134	4,798	25.1%
Depreciation & amortization	5,249	5,638	389	6.9%
Marketing & advertising	3,919	4,155	236	5.7%
Bad debt expense	8,085	6,986	(1,099)	-15.7%
Amortization of acquisition intangibles	10,020	23,299	13,279	57.0%
Other	35,865	30,766	(5,099)	-16.6%
Allocated corporate & shared costs	1,348	1,081	(267)	-24.7%
Total expenses	263,792	250,588	(13,204)	-5.3%
Pretax earnings (loss)	\$ 2,163	\$ (3,495)	\$ 5,658	—
EBITDA	\$ 17,472	\$ 25,586	\$ (8,114)	-31.7%

Business services revenues of \$266.0 million increased 7.6% from \$247.1 million in the prior year. This increase was due to the addition of new firms and revenue from Wealth Management services and tax consulting. The effect of acquisitions completed in fiscal year 2002 plus the full nine months for mergers completed in fiscal year 2001, net of the sale of the businesses completed in fiscal year 2001, was to increase revenue for the nine months by \$14.5 million or 5.8% of revenue. Growth from existing product lines was \$5.1 million or 2.1% of revenue and was primarily due to Wealth Management services and tax consulting. Revenue from core tax services and general business consulting services remained relatively flat for the nine months.

Pretax results improved from a pretax loss of \$3.5 million in the prior year to earnings of \$2.2 million for the current year. Pretax results were positively impacted by \$14.3 million as a result of the adoption of SFAS 141 and 142. This increase was partly offset by \$2.1 million relating to planned operating losses for the two new acquisitions in the third quarter. In addition, fiscal 2001 included a gain on the sale of the assets of KSM Business Services, Inc. of \$1.9 million.

Corporate Operations

This segment consists primarily of corporate support departments that provide services to the Company's operating segments. These support departments consists of marketing, information technology, facilities, human resources, supply, executive, legal, finance and corporate communications. These support department costs are allocated to the Company's operating

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segments. The Company's captive insurance and franchise financing subsidiaries are also included within this segment.

As previously discussed, the Company adopted a new methodology for allocation of corporate services and support costs to business units. The change was made to more accurately reflect each business segment's performance. Prior year segment results have been restated based on this allocation methodology.

The decrease in interest expense on acquisition debt is attributable to lower financing costs and payment of a portion of the acquisition debt in fiscal 2002.

*Corporate Operations &
Interest Expense on Acquisition Debt — Three-month comparison to prior year*

	Three months ended January 31,		Variance Better/(worse)	
	2002	2001	\$	%
Total revenues	\$ 5,784	\$ 1,125	\$ 4,659	414.1%
Compensation & benefits	20,959	17,964	(2,995)	-16.7%
Occupancy & equipment	7,276	4,180	(3,096)	-74.1%
Depreciation & amortization	6,875	5,494	(1,381)	-25.1%
Marketing & advertising	42,985	25,781	(17,204)	-66.7%
Other	25,183	33,108	7,925	23.9%
Allocated corporate & shared costs	(80,834)	(78,036)	2,798	3.6%
Total expenses	22,444	8,491	(13,953)	-164.3%
Pretax loss	\$(16,660)	\$ (7,366)	\$ (9,294)	-126.2%
Interest expense on acquisition debt	\$ 19,243	\$ 23,988	\$ 4,745	19.8%

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*Corporate Operations &
Interest Expense on Acquisition Debt — Three-month comparison to preceding quarter*

	Fiscal Year 2002 Quarter		Variance Better/(worse)	
	3rd	2nd	\$	%
Total revenues	\$ 5,784	\$ (422)	\$ 6,206	—
Compensation & benefits	20,959	21,468	509	2.4%
Occupancy & equipment	7,276	5,284	(1,992)	-37.7%
Depreciation & amortization	6,875	5,530	(1,345)	-24.3%
Marketing & advertising	42,985	4,658	(38,327)	-822.8%
Other	25,183	18,210	(6,973)	-38.3%
Allocated corporate & shared costs	(80,834)	(45,754)	35,080	76.7%
Total expenses	22,444	9,396	(13,048)	-138.9%
Pretax loss	\$(16,660)	\$ (9,818)	\$ (6,842)	-69.7%
Interest expense on acquisition debt	\$ 19,243	\$ 19,360	\$ 117	0.6%

*Corporate Operations &
Interest Expense on Acquisition Debt — Nine-month comparison to prior year*

	Nine months ended January 31,		Variance Better/(worse)	
	2002	2001	\$	%
Total revenues	\$ 7,444	\$ 3,264	\$ 4,180	128.1%
Compensation & benefits	59,593	45,369	(14,224)	-31.4%
Occupancy & equipment	16,943	10,648	(6,295)	-59.1%
Depreciation & amortization	18,217	15,036	(3,181)	-21.2%
Marketing & advertising	49,092	30,210	(18,882)	-62.5%
Other	58,037	65,817	7,780	11.8%
Allocated corporate & shared costs	(162,521)	(144,550)	17,971	12.4%
Total expenses	39,361	22,530	(16,831)	-74.7%
Pretax loss	\$ (31,917)	\$ (19,266)	\$(12,651)	-65.7%
Interest expense on acquisition debt	\$ 60,001	\$ 75,760	\$ 15,759	20.8%

FINANCIAL CONDITION

These comments should be read in conjunction with the Consolidated Balance Sheets and Consolidated Statements of Cash Flows found on pages 1 and 3, respectively.

Liquidity and capital resources

Cash used in operations totaled to \$994.2 million during the nine months ended January 31, 2002 as compared to \$975.8 million in the prior year. The primary use of cash in operations for the current nine months is the net funding of participations in RAL receivables totaling \$702.0 million. Cash used in operations was impacted by the net loss from operations of \$29.2 million for the nine months compared to a net loss of \$96.9 million one year ago.

Cash expenditures during the first nine months of fiscal year 2002 relating to investing and financing activities include the purchase of property and equipment (\$71.3 million), business acquisitions (\$44.4 million), payments on acquisition debt (\$49.5 million), payment of dividends (\$86.3 million) and the acquisition of treasury shares (\$165.4 million net of the proceeds of stock options exercised).

Cash and cash equivalents, including restricted balances, totaled \$640.2 million at January 31, 2002. HRBFA held \$305.3 million of the \$640.2 million, of which \$101.9 million was segregated in a special reserve account for the exclusive benefit of customers pursuant to Rule 15c3-3 of the Securities Exchange Act of 1934. The restricted cash balance has grown from \$16.0 million at the beginning of fiscal 2002 to \$101.9 million as of January 31, 2002. Customer credit balances have become larger than customer debit balances due to the significant decline in margin loan balances resulting from the slowing economy, while customer credit balances have increased slightly during the period. The remaining cash and cash equivalents held by HRBFA reflect excess cash remaining from the firm and clients after funding margin debits and security settlements. The balance of cash and cash equivalents held outside of HRBFA largely reflects management's decision to hold excess cash to ensure on-hand liquidity through the peak RAL season.

Working capital decreased to \$18.2 million at January 31, 2002 from \$282.8 million at April 30, 2001. The working capital ratio at January 31, 2002 is 1.01 to 1, compared to 1.14 to 1 at April 30, 2001. The decrease in working capital and the working capital ratio is attributable to the seasonal nature of the business. Historically, a large portion of tax return preparation occurs in the fourth quarter and has the effect of increasing certain assets and liabilities during the fourth quarter, including cash and cash equivalents, receivables, accrued salaries, wages and payroll taxes and accrued taxes on earnings.

The Company's capital expenditures, dividend payments, share repurchases, business acquisitions, RAL participation fundings and normal operating activities during the first nine months were funded through both internally-generated funds and short-term borrowings. At January 31, 2002, short-term borrowings were \$1.64 billion compared with a zero balance at April 30, 2001. The Company receives the majority of its operational cash inflows in the fourth quarter due to the seasonal nature of the U.S. tax operations segment. As such, the Company intends to reduce its short-term borrowings to zero at April 30, 2002 for the second consecutive year.

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The Company's commercial paper borrowings are supported by a \$1.93 billion unsecured, committed credit facility provided by a consortium of 20 financial institutions. This credit facility is subject to annual renewal in October. Access to the credit facility is not impacted by the Company's credit ratings. In addition, the Company entered into a \$500 million credit facility for the period of February 1, 2002 through February 22, 2002. The purpose of the additional facility was to ensure sufficient liquidity to fund the RAL product through the peak period. Both credit facilities remain undrawn.

The Company incurs short-term borrowings by issuing commercial paper. Access to the commercial paper market can be impacted by numerous factors including, but not limited to, a downgrade of the Company's short-term credit ratings and market factors outside of the Company's control. In the event of impaired access to the commercial paper market, other sources of liquidity could include cash, the above mentioned credit facility, other uncommitted bank borrowings, medium- and long-term debt issuance and asset securitization.

The Company originates non-conforming and conforming mortgage loans daily. In an effort to reduce the Company's capital investment in its mortgage operations, the Company entered into third-party off-balance sheet arrangements beginning in April 2000, renewable annually. The arrangements, which are not guaranteed by the Company, have freed up cash and short-term borrowing capacity (\$1.83 billion at January 31, 2002), while still enabling the Company to have access to liquidity in the secondary market for mortgage loans. The mortgage loans are originated and the money is provided to the borrower using internal funds. On the same day the loan is originated, it is sold in a whole-loan sale (in accordance with Statement of Accounting Standards No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities") to a third-party trust (Trust). The Trust purchases the loans from the Company utilizing the warehouse financing that the Company has arranged. The Trust is solely responsible for paying principal and interest on the warehouse financing arrangement. As a result of the whole-loan sale to the Trust, the Company records a receivable from the Trust for a portion of the net spread that the Trust has earned while holding the mortgage loans. This receivable is included in prepaid and other current assets on the consolidated balance sheet. The Company then pledges its receivable to a securitization trust and the Trust pledges the related mortgage loans to the securitization trust to reconstitute the loans. The securitization trust then securitizes the mortgage loans. At this point, the Company's receivable is recharacterized as a residual interest from the securitized mortgage loans. To enable the Company to receive cash for its residual interests earlier, the Company then securitizes its residual interests in a net interest margin (NIM) transaction. From the NIM transaction, the Company receives cash and retains a residual interest that is much smaller than the original residual interest. These residual interests are classified as available-for-sale and are included in Investments in available-for-sale marketable securities on the consolidated balance sheet.

The Company has also begun receiving cash collections from its residual interests issued in 2000. Cash received on these residual interests in the third quarter was \$24.3 million. The receipt of cash reduces the residual interest on the consolidated balance sheet.

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The Company has commitments to fund mortgage loans of \$2.0 billion at January 31, 2002, subject to contract verification. External market forces impact the probability of loan commitments being closed, and therefore, total commitments outstanding do not necessarily represent future cash requirements. If the loan commitments are exercised, they will be funded using the Company's third-party off-balance sheet arrangements.

In March 2000, the Company's Board of Directors approved an authorization to repurchase up to 12 million shares of its common stock. Repurchases under the March 2000 authorization were completed in September 2001. On September 12, 2001, the Company's Board of Directors authorized the repurchase of an additional 15 million shares of common stock. In the first nine months of fiscal 2002, the Company repurchased 9.7 million shares (split-adjusted) pursuant to these authorizations at an aggregate price of \$352.2 million or an average price of \$36.32 per share. There are approximately 11.1 million shares remaining under the September 2001 authorization. The Company plans to continue to purchase its shares on the open market in accordance with this authorization, subject to various factors including the price of the stock, the ability to maintain progress toward a financial and capital structure that will support a mid single A rating, the availability of excess cash, the ability to maintain liquidity and financial flexibility, securities laws restrictions and other investment opportunities available.

There have been no changes during this fiscal year to the Company's long- or short-term credit ratings of A3/P2 by Moody's, BBB+/A2 by Standard and Poor's, and A/F1 by Fitch.

Forward-looking information

The information contained in this Form 10-Q and the exhibits hereto may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Such statements are based upon current information, expectations, estimates and projections regarding the Company, the industries and markets in which the Company operates, and management's assumptions and beliefs relating thereto. Words such as "will," "plan," "expect," "remain," "intend," "estimate," "approximate," and variations thereof and similar expressions are intended to identify such forward-looking statements. These statements speak only as of the date on which they are made, are not guarantees of future performance, and involve certain risks, uncertainties and assumptions that are difficult to predict. Therefore, actual outcomes and results could materially differ from what is expressed, implied or forecast in such forward-looking statements. Such differences could be caused by a number of factors including, but not limited to, the uncertainty of laws, legislation, regulations, supervision and licensing by Federal, state and local authorities and their impact on any lines of business in which the Company's subsidiaries are involved; unforeseen compliance costs; the uncertainty that the Company will achieve or exceed its revenue, earnings, earnings per share, client and pricing growth goals and expectations for fiscal year 2002; changes in economic, political or regulatory environments; changes in competition and the effects of such changes; the inability to implement the Company's strategies; changes in management and management strategies; the Company's inability to successfully design, create, modify and operate its computer systems and networks; the uncertainty that actual future excess cash flows from residual interests in securitizations of REMIC certificates and mortgage servicing rights will differ from estimated future excess cash flows from such items; the ability of the Company to complete a NIM transaction on existing residual interests; that the level of growth experienced in U.S. tax operations in the third quarter

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and early tax season will continue throughout the remainder of the tax season and fiscal year; litigation involving the Company; the uncertainty of the impact of any share repurchases on earnings per share; and risks described from time to time in reports and registration statements filed by the Company and its subsidiaries with the Securities and Exchange Commission. Readers should take these factors into account in evaluating any such forward-looking statements. The Company undertakes no obligation to update publicly or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes in market risk from those reported at April 30, 2001.

PART II — OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

CompuServe Corporation (CompuServe), certain current and former officers and directors of CompuServe and the Company were named as defendants in six lawsuits in state and Federal courts in Columbus, Ohio. All suits alleged similar violations of the Securities Act of 1933 based on assertions of omissions and misstatements of fact in connection with CompuServe's public filings related to its initial public offering in April 1996. One state lawsuit brought by the Florida State Board of Administration also alleged certain oral omissions and misstatements in connection with such offering. Relief sought in the lawsuits was unspecified, but included pleas for rescission and damages.

In the class action pending in state court, the court issued, in November 2000, its order approving a settlement pursuant to which the defendants agreed to pay a gross settlement amount of \$9.5 million. Payment of plaintiffs' attorneys' fees and expenses were to be paid out of the gross settlement fund. The gross settlement fund was paid in its entirety by the Company's insurance carrier. The agreement to settle and payment of the gross settlement fund are not admissions of the validity of any claim or any fact alleged by the plaintiffs and defendants continue to deny any wrongdoing and any liability.

The Florida State Board of Administration opted out of the class action settlement and that litigation continues separately from the state court class action. The parties have reached a settlement that will dispose of the case in its entirety with no material adverse impact on the Company's consolidated financial position or results of operations.

The lawsuits discussed herein were previously reported in Forms 10-K and 10-Q filed by the Company, including the quarterly reports on Form 10-Q for the periods ending July 31, 2001 and October 31, 2001.

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

a) Exhibits

- 10.1 Employment Agreement between HRB Management, Inc and David F. Byers fully executed as of February 1, 2002.
- 10.2 Employment Agreement between Option One Mortgage Corporation and Robert D. Dubrish executed on February 9, 2002.
- 10.3 Employment Agreement dated as of September 12, 2001, between HRB Management, Inc. and James H. Ingraham, fully executed as of February 1, 2002.
- 10.4 Employment Agreement dated as of November 5, 2001, between H&R Block Financial Advisors, Inc. and Brian L. Nygaard.
- 10.5 Employment Agreement dated as of January 28, 2002, between HRB Management, Inc. and Stephanie R. Otto.
- 10.6 Employment Agreement dated as of November 1, 2001, between H&R Block Tax Services, Inc. and Thomas L. Zimmerman.

b) Reports on Form 8-K

The registrant did not file any reports on Form 8-K during the third quarter of fiscal year 2002.

SIGNATURES

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

		H&R BLOCK, INC.

		(Registrant)
DATE <u>3/18/02</u>	BY	/s/ Frank J. Cotroneo

		Frank J. Cotroneo Senior Vice President and Chief Financial Officer
DATE <u>3/18/02</u>	BY	/s/ Cheryl L. Givens

		Cheryl L. Givens Vice President and Corporate Controller

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT ("Agreement") is entered into as of _____, 2001, by and between HRB Management, Inc., a Missouri corporation (the "Company"), and David F. Byers ("Executive").

ARTICLE ONE

EMPLOYMENT

1.01 - Agreement as to Employment. Effective June 30, 2001 (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 the Senior Vice President and Chief Marketing Officer of H&R Block, Inc., a Missouri corporation ("Block") and the indirect parent corporation of the Company, subject to the authority and direction of the Board of Directors of Block and the Chief Executive Officer of Block. Subject to the foregoing, Executive will have such authority and responsibility and duties as are normally associated with the position of Senior Vice President and Chief Marketing Officer. The Company reserves the right to modify, delete, add, or otherwise change Executive's job responsibilities, in its sole discretion, at any time. Executive will perform such other duties 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

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the Company without notice.

1.03 - Compensation. The Company will pay to Executive a gross salary at an annual rate of \$250,000 ("Base Salary"), payable semimonthly or at any other pay periods as the Company may use for its other executive 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.

1.04 - June 30, 2001 Stock Option Grant. As additional consideration for entering into this Agreement, Executive was granted as of June 30, 2001, a stock option under Block's 1993 Long-Term Executive Compensation Plan, as amended (the "1993 Plan") to purchase 25,000 shares of Block's common stock at an option price per share equal to \$64.55, such stock option being conditioned on the entry into this Agreement and otherwise having terms and conditions consistent with the terms and conditions of options granted to other senior executive officers of Block and its subsidiaries.

1.05 - 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.

1.06 - 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.

1.07 - 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.

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

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

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

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

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

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

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

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

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(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); provided, however, (1) the "Severance Period" (as such term is defined in the Severance Plan) will be 18 months, notwithstanding any provision in the Severance Plan to the contrary, and (2) Executive will be credited with no less than 18 "Years of Service" (as such term is defined in the Severance Plan) for the purpose of determining severance compensation under Section 4(a)(i) 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. 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 1.08(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,

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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 executes an agreement with the Company under which Executive releases all known and potential claims against Block, the Company, and Affiliates. Such compensation and benefits will be Executive's election (the "Severance Election") of the same level of severance compensation and benefits as would be provided under the Severance Plan as such plan exists either (A) on the date of this Agreement or (B) Executive's Last Day of Employment; provided, however, (1) the "Severance Period" (as such term is defined in the Severance Plan) will be 18 months, notwithstanding any provision in the Severance Plan to the contrary, and (2) Executive will be credited with no less than 18 "Years of Service" (as such term is defined in the Severance Plan) for the purpose of determining severance compensation under Section 4(a) (i) 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. The Severance Plan as it exists on the date of this Agreement is attached hereto as

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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 1.08(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 1.08, (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

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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-subsiary of Block) to

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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,

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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 1.05(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: 4400 Main Street, Kansas City, Missouri 64111; and to the Company at: 4400 Main Street, Kansas City, Missouri 64111, Attn: President, with a copy to H&R Block, Inc., 4400 Main Street, Kansas City, Missouri 64111, Attn: Corporate Secretary; or to such other address and/or person designated by either party in writing to the other party. Any notice given by mail will be deemed given as of the date it is so mailed and postmarked or received by a nationally recognized overnight courier for delivery.

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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: 2-1-02

/s/ David F. Byers

David F. Byers

Accepted and Agreed:

HRB MANAGEMENT, INC.
a Missouri corporation

By: /s/ Mark A. Ernst

Mark A. Ernst
President and Chief Executive Officer

Dated: 1 Feb 02

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1. PURPOSE. The H&R Block Severance Plan is a welfare benefit plan established by HRB Management, Inc., an indirect subsidiary of H&R Block, Inc., for the benefit of certain subsidiaries of H&R Block, Inc. in order to provide severance compensation and benefits to certain employees of such subsidiaries whose employment is involuntarily terminated under the conditions set forth herein. This document constitutes both the plan document and the summary plan description required by the Employee Retirement Income Security Act of 1974.

2. DEFINITIONS.

(a) "Company" means H&R Block, Inc.

(b) "Employee" means a regular full-time or part-time, active employee of a Participating Employer whose employment with a Participating Employer is not subject to an employment contract that contains a provision that includes severance benefits. This definition expressly excludes seasonal, temporary and inactive employees of a Participating Employer and employees who are customarily employed by a Participating Employer less than 20 hours per week.

(c) "ERISA" means the Employee Retirement Income Security Act of 1974, as amended.

(d) "Hour of Service" means each hour for which an individual was entitled to compensation as a regular full-time or part-time employee from a subsidiary of the Company.

(e) "Line of Business of the Company" with respect to a Participant means any line of business of the Participating Employer by which the Participant was employed as of the Termination Date, as well as any one or more lines of business of any other subsidiary of the Company by which the Participant was employed during the two-year period preceding the Termination Date, provided that, if Participant's employment was, as of the Termination Date or during the two-year period immediately prior to the Termination Date, with HRB Management, Inc. or any successor entity thereto, "Line of Business of the Company" shall mean any lines of business of the Company and all of its subsidiaries.

(f) "Participant" means an Employee who has incurred a Qualifying Termination and has signed a Release that has not been revoked during any

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revocation period provided under the Release.

(g) "Participating Employer" means a direct or indirect subsidiary of the Company (i) listed on Schedule A, attached hereto, which may change from time to time to reflect new Participating Employers or withdrawing Participating Employers, and (ii) approved by the Plan Sponsor for participation in the Plan.

(h) "Plan" means the "H&R Block Severance Plan," as stated herein, and as may be amended from time to time.

(i) "Plan Administrator" and "Plan Sponsor" means HRB Management, Inc. The address and telephone number of HRB Management, Inc. is 4400 Main Street, Kansas City, Missouri 64111, (816) 753-6900. The Employer Identification Number assigned to HRB Management, Inc. by the Internal Revenue Service is 43-1632589.

(j) "Qualifying Termination" means the involuntary termination of an Employee, but does not include a termination resulting from:

(i) the termination of an Employee as a result of the elimination of the Employee's position where the Employee was offered another position with a subsidiary of the Company at a comparable salary and benefit level, or where the termination results from a sale of assets or other corporate acquisition;

(ii) the redefinition of an Employee's position to a lower salary rate;

(iii) the termination of an Employee for cause; or

(iv) the non-renewal of employment contracts.

(k) "Release" means that agreement signed by and between an Employee who is eligible to participate in the Plan and the Employee's Participating Employer under which the Employee releases all known and potential claims against the Employee's Participating Employer and all of such employer's parents, subsidiaries, and affiliates.

(l) "Release Date" means, with respect to a Release that includes a revocation period, the date immediately following the expiration date of the revocation period in the Release that has been fully executed by both parties. "Release Date" means, with respect to a Release that does not include a revocation period, the date the Release has been fully executed by both parties.

(m) "Severance Period" means the period of time during which a Participant may receive benefits under this Plan. The Severance Period with

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respect to a Participant begins on the Termination Date. A Participant's Severance Period will be the shorter of (i) 12 months or (ii) a number of months equal to the whole number of Years of Service determined under Section 2(p), unless earlier terminated in accordance with Section 8 of the Plan.

(n) "Termination Date" means the date the Employee severs employment with a Participating Employer.

(o) "Monthly Salary" means -

(i) with respect to an Employee paid on a salary basis, the Employee's current annual salary divided by 12; and

(ii) with respect to an Employee paid on an hourly basis, the Employee's current hourly rate times the number of hours he or she is regularly scheduled to work per week multiplied by 52 and then divided by 12.

(p) "Year of Service" means each period of 12 consecutive months ending on the Employee's employment anniversary date during which the Employee had at least 1,000 Hours of Service. In determining a Participant's Years of Service, the Participant will be credited with a partial Year of Service for his or her final period of employment commencing on his or her most recent employment anniversary date equal to a fraction calculated in accordance with the following formula:

$$\frac{\text{Number of days since most recent employment anniversary date}}{\text{-----}} \\ 365$$

Despite an Employee's Years of Service calculated in accordance with the above, an Employee whose pay grade at his or her Participating Employer fits in the following categories at the time of the Qualifying Termination will be credited with no less than the specified Minimum Years of Service and no more than the specified Maximum Years of Service listed in the following table as applicable to such pay grade:

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MINIMUM YEARS MAXIMUM YEARS

PAY GRADE -----	OF SERVICE -----	OF SERVICE -----
81-89 and 231-235	6	18
65-80, 109-110, and 218-230	3	18
57-64, 105-108, and 210-217	1	18
48-56, 100-102, and 200-209	1	18

3. ELIGIBILITY AND PARTICIPATION. All Employees who incur a Qualifying Termination and sign a Release are eligible to participate in the Plan. An eligible Employee will become a Participant in the Plan as of the Termination Date.

4. SEVERANCE COMPENSATION.

(a) Amount. Subject to Section 8, each Participant will receive during the Severance Period from the applicable Participating Employer aggregate severance compensation equal to:

(i) the Participant's Monthly Salary multiplied by the Participant's Years of Service; plus

(ii) one-twelfth of the Participant's target payout under the Short-Term Incentive Program of the Participating Employer in effect at the time of his or her Termination Date multiplied by the Participant's Years of Service; plus

(iii) an amount to be determined by the Participating Employer at its sole discretion, which amount may be zero.

(b) Timing of Payments. Except as stated in Section 4(c), and subject to Section 8,

(i) the sum of any amounts determined under Sections 4(a)(i) and 4(a)(ii) of the Plan will be paid in semi-monthly or bi-weekly installments (the timing and amount of each installment as determined by the Participating Employer) during the Severance Period beginning after the later of the Termination Date or the Release Date; and

(ii) any amounts determined under Section 4(a)(iii) of the Plan will be paid in one lump sum within 15 days after the later of the Termination Date or the Release Date, unless otherwise agreed in writing by the Participating Employer and Participant or otherwise required by law.

(c) Death. In the event of the Participant's death prior to receiving

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all payments due under this Section 4, any unpaid severance compensation will be paid (i) in the same manner as are death benefits under the Participant's basic life insurance coverage provided by the Participant's Participating Employer, and (ii) in accordance with the Participant's beneficiary designation under such coverage. If no such coverage exists, or if no beneficiary designation exists under such coverage as of the date of death of the Participant, the severance compensation will be paid to the Participant's estate in one-lump sum.

5. HEALTH AND WELFARE BENEFITS.

(a) Benefits. In addition to the severance compensation provided pursuant to Section 4 of the Plan, a Participant may continue to participate in the following health and welfare benefits provided by his or her Participating Employer during the Severance Period on the same basis as employees of the Participating Employer:

- (i) medical;
- (ii) dental;
- (iii) vision;
- (iv) employee assistance;
- (v) medical expense reimbursement and dependent care expense reimbursement benefits provided under a cafeteria plan;
- (vi) life insurance (basic and supplemental); and
- (vii) accidental death and dismemberment insurance (basic and supplemental).

For the purposes of any of the above-described benefits provided under a Participating Employer's cafeteria plan, a Qualifying Termination constitutes a "change in status" or "life event."

(b) Payment and Expiration. Payment of the Participant's portion of contribution or premiums for such selected benefits will be withheld from any severance compensation payments paid to the Participant under this Plan. The Participating Employer's partial subsidization of such coverages will remain in effect until the earlier of:

- (i) the expiration or earlier termination of the Employee's Severance Period, after which time the Participant may be eligible to elect to continue coverage of those benefits listed above that are

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provided under group health plans in accordance with his or her rights under Section 4980B of the Internal Revenue Code; or

- (ii) the Participant's attainment of or eligibility to attain health and welfare benefits through another employer after which time the Participant may be eligible to elect to continue coverage of those benefits listed above that are provided under group health plans in accordance with his or her rights under Section 4980B of the Internal Revenue Code.

6. STOCK OPTIONS.

(a) Accelerated Vesting. Any portion of any outstanding incentive stock options and nonqualified stock options that would have vested during the 18-month period following the Termination Date had the Participant remained an employee with the Participating Employer during such 18-month period will vest as of the Termination Date. This Section 6(a) applies only to options (i) granted to the Participant under the Company's 1993 Long-Term Executive Compensation Plan, or any successor plan to its 1993 Long-Term Executive Compensation Plan, not less than 6 months prior to his or her Termination Date and (ii) outstanding at the close of business on such Termination Date. The determination of accelerated vesting under this Section 6(a) shall be made as of the Termination Date and shall be based solely on any time-specific vesting schedule included in the applicable stock option agreement without regard to any accelerated vesting provision not related to the Plan in such agreement.

(b) Post-Termination Exercise Period. Subject to the expiration dates and other terms of the applicable stock option agreements, the Participant may elect to have the right to exercise any outstanding incentive stock options and nonqualified stock options granted prior to the Termination Date to the Participant under the Company's 1984 Long-Term Executive Compensation Plan, its 1993 Long-Term Executive Compensation Plan, or any successor plan to its 1993 Long-Term Executive Compensation Plan that are vested as of the Termination Date (or, if later, the Release Date), whether due to the operation of Section 6(a), above, or otherwise, at any time during the Severance

Period and, except in the event that the Severance Period terminates pursuant to Section 8(a), for a period up to 3 months after the end of the Severance Period (notwithstanding Section 8). Any such election shall apply to all outstanding incentive stock options and nonqualified stock options, will be irrevocable and must be made in writing and delivered to the Plan Administrator on or before the later of the Termination Date or Release Date. If the Participant fails to make an election, the Participant's right to exercise such options will expire 3 months after the Termination Date.

(c) Stock Option Agreement Amendment. The operation of Sections 6(a)

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and 6(b), above, are subject to the Participant's execution of an amendment to any affected stock option agreements.

7. OUTPLACEMENT SERVICES. In addition to the benefits described above, career transition counseling or outplacement services may be provided upon the Participant's Qualifying Termination. Such outplacement service will be provided at the Participating Employer's sole discretion. Outplacement services are designed to assist employees in their search for new employment and to facilitate a smooth transition between employment with the Participating Employer and employment with another employer. Any outplacement services provided under this Plan will be provided by an outplacement service chosen by the Participating Employer. The Participant is not entitled to any monetary payment in lieu of outplacement services.

8. TERMINATION OF BENEFITS. Any right of a Participant to severance compensation and benefits under the Plan, and all obligations of his or her Participating Employer to pay any unpaid severance compensation or provide benefits under the Plan will terminate as of the day:

(a) The Participant has engaged in any conduct described in Sections 8(a)(i), 8(a)(ii), 8(a)(iii) or 8(a)(iv), below, as the same may be limited pursuant to Section 8(a)(vi).

(i) During the Severance Period, the Participant's engagement in, ownership of, or control of any interest in (except as a passive investor in less than one percent of the outstanding securities of publicly held companies), or acting as an officer, director or employee of, or consultant, advisor or lender to, any firm, corporation, partnership, limited liability company, institution, business, government agency, or entity that engages in any line of business that is competitive with any Line of Business of the Company, provided that this Section 8(a)(i) shall not apply to the Participant if the Participant's primary place of employment by a subsidiary of the Company as of the Termination Date is in either the State of California or the State of North Dakota.

(ii) During the Severance Period, the Participant employs or solicits for employment by any employer other than a subsidiary of the Company any employee of any subsidiary of the Company, or recommends any such employee for employment to any employer (other than a subsidiary of the Company) at which the Participant is or intends to be (A) employed, (B) a member of the Board of Directors, (C) a partner, or (D) providing consulting services.

(iii) During the Severance Period, the Participant directly or indirectly solicits or enters into any arrangement with any person or entity which is, at the time of the solicitation, a significant customer of a

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subsidiary of the Company for the purpose of engaging in any business transaction of the nature performed by such subsidiary, or contemplated to be performed by such subsidiary, for such customer, provided that this Section

8(a)(iii) shall only apply to customers for whom the Participant personally provided services while employed by a subsidiary of the Company or customers about whom or which the Participant acquired material information while employed by a subsidiary of the Company.

(iv) During the Severance Period, the Participant misappropriates or improperly uses or discloses confidential information of the Company and/or its subsidiaries.

(v) If the Participant engaged in any of the conduct described in Sections 8(a)(i), 8(a)(ii), 8(a)(iii) or 8(a)(iv) during or after Participant's term of employment with a Participating Employer, but prior to the commencement of the Severance Period, and such engagement becomes known to the Participating Employer during the Severance Period, such conduct shall be deemed, for purposes of Sections 8(a)(i), 8(a)(ii), 8(a)(iii) or 8(a)(iv) to have occurred during the Severance Period.

(vi) If the Participant is a party to an employment contract with a Participating Employer that contains a covenant or covenants relating to the Participant's engagement in conduct that is the same as or substantially similar to the conduct described in any of Sections 8(a)(i), 8(a)(ii), 8(a)(iii) or 8(a)(iv), and any specific conduct regulated in such covenant or covenants in such employment contract is more limited in scope geographically or otherwise than the corresponding specific conduct described in any of such Sections 8(a)(i), 8(a)(ii), 8(a)(iii) or 8(a)(iv), then the corresponding specific conduct addressed in the applicable Section 8(a)(i), 8(a)(ii), 8(a)(iii) or 8(a)(iv) shall be limited to the same extent as such conduct is limited in the employment contract and the Participating Employer's rights and remedy with respect to such conduct under this Section 8 shall apply only to such conduct as so limited.

(b) The Participant is rehired by his or her Participating Employer or hired by any other subsidiary of the Company.

9. AMENDMENT AND TERMINATION. The Plan Sponsor reserves the right to amend the Plan or to terminate the Plan and all benefits hereunder in their entirety at any time.

10. ADMINISTRATION OF PLAN. The Plan Administrator has the power and discretion to construe the provisions of the Plan and to determine all questions relating to the eligibility of employees of Participating Employers to become Participants in the Plan, and the amount of benefits to which any Participant may

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be entitled thereunder in accordance with the Plan. Not in limitation, but in amplification of the foregoing and of the authority conferred upon the Plan Administrator, the Plan Sponsor specifically intends that the Plan Administrator have the greatest permissible discretion to construe the terms of the Plan and to determine all questions concerning eligibility, participation and benefits. Any such decision made by the Plan Administrator will be binding on all Employees, Participants, and Beneficiaries, and is intended to be subject to the most deferential standard of judicial review. Such standard of review is not to be affected by any real or alleged conflict of interest on the part of the Plan Administrator. The decision of the Plan Administrator upon all matters within the scope of its authority will be final and binding.

11. CLAIMS PROCEDURES.

(a) FILING A CLAIM FOR BENEFITS. Participants are not required to submit claim forms to initiate payment of benefits under this Plan. To make a claim for benefits, individuals other than Participants who believe they are entitled to receive benefits under this Plan and Participants who believe they have been denied certain benefits under the Plan must write to the Plan Administrator. These individuals and such Participants are hereinafter referred to in this Section 11 as "Claimants." Claimants must notify the Plan Administrator if they will

be represented by a duly authorized representative with respect to a claim under the Plan.

(b) INITIAL REVIEW OF CLAIMS. The Plan Administrator will evaluate a claim for benefits under the Plan. The Plan Administrator may solicit additional information from the Claimant if necessary to evaluate the claim. If the Plan Administrator denies all or any portion of the claim, the Claimant will receive, within 90 days after the receipt of the written claim, a written notice setting forth:

(i) the specific reason for the denial;

(ii) specific references to pertinent Plan provisions on which the Plan Administrator based its denial;

(iii) a description of any additional material and information needed for the Claimant to perfect his or her claim and an explanation of why the material or information is needed; and

(iv) that any appeal the Claimant wishes to make of the adverse determination must be in writing to the Plan Administrator within 60 days after receipt of the notice of denial of benefits. The notice must advise the Claimant that his or her failure to appeal the action to the Plan Administrator in writing within the 60-day period will render the Plan Administrator's determination final, binding and conclusive. The

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notice must further advise the Claimant of his or her right to bring a civil action under Section 502(a) of ERISA following the exhaustion of the claims procedures described herein.

(c) APPEAL OF DENIED CLAIM AND FINAL DECISION. If the Claimant should appeal to the Plan Administrator, the Claimant, or his or her duly authorized representative, must submit, in writing, whatever issues and comments the Claimant or his or her duly authorized representative feels are pertinent. The Claimant, or his or her duly authorized representative, may review and request pertinent Plan documents. The Plan Administrator will reexamine all facts related to the appeal and make a final determination as to whether the denial of benefits is justified under the circumstances. The Plan Administrator will advise the Claimant in writing of its decision within 60 days of the Claimant's written request for review, unless special circumstances (such as a hearing) require an extension of time, in which case the Plan Administrator will make a decision as soon as possible, but no later than 120 days after its receipt of a request for review.

12. PLAN FINANCING. The benefits to be provided under the Plan will be paid by the applicable Participating Employer, as incurred, out of the general assets of such Participating Employer.

13. GENERAL INFORMATION. The Plan's records are maintained on a calendar year basis. The Plan Number is 509. The Plan is self-administered and is considered a severance plan.

14. GOVERNING LAW. The Plan is established in the State of Missouri. To the extent federal law does not apply, any questions arising under the Plan will be determined under the laws of the State of Missouri.

15. ENFORCEABILITY; SEVERABILITY. If a court of competent jurisdiction determines that any provision of the Plan is not enforceable, then such provision shall be enforceable to the maximum extent possible under applicable law, as determined by such court. The invalidity or unenforceability of any provision of the Plan, as determined by a court of competent jurisdiction, will not affect the validity or enforceability of any other provision of the Plan and all other provisions will remain in full force and effect.

16. WITHHOLDING OF TAXES. The applicable Participating Employer may withhold from any benefit payable under the Plan all federal, state, city or other taxes as may be required pursuant to any law, governmental regulation or ruling. The Participant shall pay upon demand by the Company or the Participating Employer

any taxes required to be withheld or collected by the Company or the Participating Employer upon the exercise by the Participant of a nonqualified stock option granted under the Company's 1984 Long-Term Executive Compensation Plan or its 1993 Long-Term Executive Compensation Plan. If the Participant fails

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to pay any such taxes associated with such exercise upon demand, the Participating Employer shall have the right, but not the obligation, to offset such taxes against any unpaid severance compensation under this Plan.

17. NOT AN EMPLOYMENT AGREEMENT. Nothing in the Plan gives an Employee any rights (or imposes any obligations) to continued employment by his or her Participating Employer or other subsidiary of the Company, nor does it give such Participating Employer any rights (or impose any obligations) for the continued performance of duties by the Employee for the Participating Employer or any other subsidiary of the Company.

18. NO ASSIGNMENT. The Employee's right to receive payments of severance compensation and benefits under the Plan are not assignable or transferable, whether by pledge, creation of a security interest, or otherwise. In the event of any attempted assignment or transfer contrary to this section, the applicable Participating Employer will have no liability to pay any amount so attempted to be assigned or transferred.

19. SERVICE OF PROCESS. The Secretary of the Plan Administrator is designated as agent for service of legal process. Service of legal process may be made upon the Secretary of the Plan Administrator at:

HRB Management, Inc.
Attn: Secretary
4400 Main Street
Kansas City, Missouri 64111

20. STATEMENT OF ERISA RIGHTS. As a participant in the Plan, you are entitled to certain rights and protections under ERISA, which provides that all Plan Participants are entitled to:

(a) examine without charge, at the Plan Administrator's office, all documents governing the Plan and a copy of the latest annual report (Form 5500 Series) filed by the Plan with the U.S. Department of Labor and available at the Public Disclosure Room of the Pension and Welfare Benefit Administration;

(b) obtain, upon written request to the Plan Administrator, copies of documents governing the operation of the Plan, copies of the latest annual report (Form 5500 Series) and an updated summary plan description. The Plan Administrator may make a reasonable charge for the copies; and

(c) receive a summary of the Plan's annual financial report if required to be filed for the year. The Plan Administrator is required by law to furnish each participant with a copy of this summary annual report if an annual report is required to be filed for the year.

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In addition to creating rights for Plan Participants, ERISA imposes duties upon the people who are responsible for the operation of the Plan. The people who operate your Plan, called "fiduciaries" of the Plan, have a duty to do so prudently and in the interest of you and other Plan Participants and beneficiaries. No one, including your Participating Employer or any other person, may fire you or otherwise discriminate against you in any way to prevent you from obtaining a welfare benefit or exercising your rights under ERISA.

If your claim for a welfare benefit is denied or ignored, in whole or in part, you have the right to know why this was done, to obtain copies of documents relating to the decision without charge, and to appeal any denial, all within certain time schedules.

Under ERISA, there are steps you can take to enforce the above rights.

For instance, if you request a copy of plan documents or the latest annual report from the Plan and do not receive them within 30 days, you may file suit in a Federal court. In such a case, the court may require the Plan Administrator to provide the materials to you and pay you up to \$110 a day until you receive the materials, unless the materials were not sent because of reasons beyond the control of the Plan Administrator. If you have a claim for benefits that is denied or ignored, in whole or in part, you may file suit in a state or Federal court. If it should happen that you are discriminated against for asserting your rights, you may seek assistance from the U. S. Department of Labor, or you may file suit in a Federal court. The court will decide who should pay court costs and legal fees. If you are successful, the court may order the person you have sued to pay these costs and fees. If you lose, the court may order you to pay these costs and fees, for example, if it finds your claim is frivolous.

If you have any questions about the Plan, you should contact the Plan Administrator. If you have questions about this statement or about your rights under ERISA, or if you need assistance in obtaining documents from the Plan Administrator, you should contact the nearest office of the Pension and Welfare Benefits Administration, U.S. Department of Labor, listed in your telephone directory or the Division of Technical Assistance and Inquiries, Pension and Welfare Benefits Administration, U.S. Department of Labor, 200 Constitution Avenue N.W., Washington, D.C. 20210. You may also obtain certain publications about your rights and responsibilities under ERISA by calling the publications hotline of the Pension and Welfare Benefits Administration.

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IN WITNESS WHEREOF, HRB Management, Inc. adopts this Severance Plan effective this 23rd day of April, 2001.

HRB MANAGEMENT, INC.

/s/ Mark A. Ernst

Mark A. Ernst
President and Chief Executive Officer

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SCHEDULE A

PARTICIPATING EMPLOYERS

Block Financial Corporation

Financial Marketing Services, Inc.

Franchise Partner, Inc.

H&R Block Investments, Inc.

H&R Block Services, Inc. and its U.S.-based direct and indirect subsidiaries

HRB Business Services, Inc.

HRB Management, Inc.

HRB Retail Services, Inc.

Olde Financial Corporation and its U.S.-based direct and indirect subsidiaries, which subsidiaries include H&R Block Financial Advisors, Inc.

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EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT ("Agreement") is entered into as of _____, 2001, by and between Option One Mortgage Corporation, a California corporation (the "Company"), and Robert E. Dubrish ("Executive").

ARTICLE ONE

EMPLOYMENT

1.01 - Agreement as to Employment. Effective June 30, 2001 (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 President and Chief Executive Officer, subject to the authority and direction of the Board of Directors of the Company and the Chief Executive Officer of H&R Block, Inc., a Missouri corporation ("Block") and the indirect parent of the Company. Subject to the foregoing, Executive will have such authority and responsibility and duties as are normally associated with the position of President. The Company reserves the right to modify, delete, add, or otherwise change Executive's job responsibilities, in its sole discretion, at any time. Executive will perform such other duties 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

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the Company without notice.

1.03 - Compensation. The Company will pay to Executive a gross salary at an annual rate of \$360,000 ("Base Salary"), payable semimonthly or at any other pay periods as the Company may use for its other executive 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.

1.04 - June 30, 2001 Stock Option Grant. As additional consideration for entering into this Agreement, Executive was granted as of June 30, 2001, a stock option under Block's 1993 Long-Term Executive Compensation Plan, as amended (the "1993 Plan") to purchase 30,000 shares of Block's common stock at an option price per share equal to \$64.55, such stock option being conditioned on the entry into this Agreement and otherwise having terms and conditions consistent with the terms and conditions of options granted to other senior executive officers of Block and its subsidiaries.

1.05 - 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.

1.06 - 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.

1.07 - 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.

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

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

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

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

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

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

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

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

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(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). For the purpose of determining severance compensation and benefits as would be provided under the Severance Plan, Executive will be deemed to be in the highest pay grade range listed 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 1.08(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

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"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 executes an agreement with the Company under which Executive releases all known and potential claims against Block, the Company, and Affiliates. Such compensation and benefits will be Executive's election (the "Severance Election") of the same level of severance compensation and benefits as would be provided under the Severance Plan as such plan exists either (A) on the date of this Agreement or (B) Executive's Last Day of Employment. For the purpose of determining severance compensation and benefits as would be provided under the Severance Plan, Executive will be deemed to be in the highest pay grade range listed 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 Severance Election. Severance compensation and benefits provided under this Section 1.08(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

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1.08, (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

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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-subsubsidiary of Block) to become an employee of or otherwise be associated with any other party or with Executive or any company or business with which Executive is or may become associated. 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

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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.

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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.

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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 1.05(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: 3 Aida, Irvine, California 92618; and to the Company at: 3 Aida, Irvine, California 92618, Attn: Corporate Secretary, 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.

4.11 - Binding Effect. This Agreement is effective only when executed by an officer of the Company and approved in writing by the President and Chief Executive Officer of Block.

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: _____ /s/ Robert E. Dubrish
Robert E. Dubrish

ACCEPTED AND AGREED:

OPTION ONE MORTGAGE CORPORATION
a California corporation

By: /s/ Robert E. Dubrish

Robert E. Dubrish
President and Chief Executive Officer

Dated: _____

APPROVED:

H&R Block, Inc.
a Missouri corporation

By: /s/ Mark A. Ernst

Mark A. Ernst
President and Chief Executive Officer

Dated: 9 Feb 02

EMPLOYMENT AGREEMENT EXHIBIT A
H&R BLOCK SEVERANCE PLAN
(AS AMENDED MAY 17, 2001)

1. PURPOSE. The H&R Block Severance Plan is a welfare benefit plan established by HRB Management, Inc., an indirect subsidiary of H&R Block, Inc., for the benefit of certain subsidiaries of H&R Block, Inc. in order to provide severance compensation and benefits to certain employees of such subsidiaries whose employment is involuntarily terminated under the conditions set forth herein. This document constitutes both the plan document and the summary plan description required by the Employee Retirement Income Security Act of 1974.

2. DEFINITIONS.

(a) "Company" means H&R Block, Inc.

(b) "Employee" means a regular full-time or part-time, active employee of a Participating Employer whose employment with a Participating Employer is not subject to an employment contract that contains a provision that includes severance benefits. This definition expressly excludes seasonal, temporary and inactive employees of a Participating Employer and employees who are customarily employed by a Participating Employer less than 20 hours per week.

(c) "ERISA" means the Employee Retirement Income Security Act of 1974, as amended.

(d) "Hour of Service" means each hour for which an individual was entitled to compensation as a regular full-time or part-time employee from a subsidiary of the Company.

(e) "Line of Business of the Company" with respect to a Participant means any line of business of the Participating Employer by which the Participant was employed as of the Termination Date, as well as any one or more lines of business of any other subsidiary of the Company by which the Participant was employed during the two-year period preceding the Termination Date, provided that, if Participant's employment was, as of the Termination Date or during the two-year period immediately prior to the Termination Date, with HRB Management, Inc. or any successor entity thereto, "Line of Business of the Company" shall mean any lines of business of the Company and all of its subsidiaries.

(f) "Participant" means an Employee who has incurred a Qualifying Termination and has signed a Release that has not been revoked during any

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revocation period provided under the Release.

(g) "Participating Employer" means a direct or indirect subsidiary of the Company (i) listed on Schedule A, attached hereto, which may change from time to time to reflect new Participating Employers or withdrawing Participating Employers, and (ii) approved by the Plan Sponsor for participation in the Plan.

(h) "Plan" means the "H&R Block Severance Plan," as stated herein, and as may be amended from time to time.

(i) "Plan Administrator" and "Plan Sponsor" means HRB Management, Inc. The address and telephone number of HRB Management, Inc. is 4400 Main Street, Kansas City, Missouri 64111, (816) 753-6900. The Employer Identification Number assigned to HRB Management, Inc. by the Internal Revenue Service is 43-1632589.

(j) "Qualifying Termination" means the involuntary termination of an Employee, but does not include a termination resulting from:

(i) the termination of an Employee as a result of the

elimination of the Employee's position where the Employee was offered another position with a subsidiary of the Company at a comparable salary and benefit level, or where the termination results from a sale of assets or other corporate acquisition;

(ii) the redefinition of an Employee's position to a lower salary rate;

(iii) the termination of an Employee for cause; or

(iv) the non-renewal of employment contracts.

(k) "Release" means that agreement signed by and between an Employee who is eligible to participate in the Plan and the Employee's Participating Employer under which the Employee releases all known and potential claims against the Employee's Participating Employer and all of such employer's parents, subsidiaries, and affiliates.

(l) "Release Date" means, with respect to a Release that includes a revocation period, the date immediately following the expiration date of the revocation period in the Release that has been fully executed by both parties. "Release Date" means, with respect to a Release that does not include a revocation period, the date the Release has been fully executed by both parties.

(m) "Severance Period" means the period of time during which a Participant may receive benefits under this Plan. The Severance Period with

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respect to a Participant begins on the Termination Date. A Participant's Severance Period will be the shorter of (i) 12 months or (ii) a number of months equal to the whole number of Years of Service determined under Section 2(p), unless earlier terminated in accordance with Section 8 of the Plan.

(n) "Termination Date" means the date the Employee severs employment with a Participating Employer.

(o) "Monthly Salary" means -

(i) with respect to an Employee paid on a salary basis, the Employee's current annual salary divided by 12; and

(ii) with respect to an Employee paid on an hourly basis, the Employee's current hourly rate times the number of hours he or she is regularly scheduled to work per week multiplied by 52 and then divided by 12.

(p) "Year of Service" means each period of 12 consecutive months ending on the Employee's employment anniversary date during which the Employee had at least 1,000 Hours of Service. In determining a Participant's Years of Service, the Participant will be credited with a partial Year of Service for his or her final period of employment commencing on his or her most recent employment anniversary date equal to a fraction calculated in accordance with the following formula:

Number of days since most recent employment anniversary date

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Despite an Employee's Years of Service calculated in accordance with the above, an Employee whose pay grade at his or her Participating Employer fits in the following categories at the time of the Qualifying Termination will be credited with no less than the specified Minimum Years of Service and no more than the specified Maximum Years of Service listed in the following table as applicable to such pay grade:

MINIMUM YEARS MAXIMUM YEARS

PAY GRADE -----	OF SERVICE -----	OF SERVICE -----
81-89 and 231-235	6	18
65-80, 109-110, and 218-230	3	18
57-64, 105-108, and 210-217	1	18
48-56, 100-102, and 200-209	1	18

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3. ELIGIBILITY AND PARTICIPATION. All Employees who incur a Qualifying Termination and sign a Release are eligible to participate in the Plan. An eligible Employee will become a Participant in the Plan as of the Termination Date.

4. SEVERANCE COMPENSATION.

(a) Amount. Subject to Section 8, each Participant will receive during the Severance Period from the applicable Participating Employer aggregate severance compensation equal to:

(i) the Participant's Monthly Salary multiplied by the Participant's Years of Service; plus

(ii) one-twelfth of the Participant's target payout under the Short-Term Incentive Program of the Participating Employer in effect at the time of his or her Termination Date multiplied by the Participant's Years of Service; plus

(iii) an amount to be determined by the Participating Employer at its sole discretion, which amount may be zero.

(b) Timing of Payments. Except as stated in Section 4(c), and subject to Section 8,

(i) the sum of any amounts determined under Sections 4(a) (i) and 4(a) (ii) of the Plan will be paid in semi-monthly or bi-weekly installments (the timing and amount of each installment as determined by the Participating Employer) during the Severance Period beginning after the later of the Termination Date or the Release Date; and

(ii) any amounts determined under Section 4(a) (iii) of the Plan will be paid in one lump sum within 15 days after the later of the Termination Date or the Release Date, unless otherwise agreed in writing by the Participating Employer and Participant or otherwise required by law.

(c) Death. In the event of the Participant's death prior to receiving all payments due under this Section 4, any unpaid severance compensation will be paid (i) in the same manner as are death benefits under the Participant's basic life insurance coverage provided by the Participant's Participating Employer, and (ii) in accordance with the Participant's beneficiary designation under such coverage. If no such coverage exists, or if no beneficiary designation exists under such coverage as of the date of death of the Participant, the severance compensation will be paid to the Participant's estate in one-lump sum.

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5. HEALTH AND WELFARE BENEFITS.

(a) Benefits. In addition to the severance compensation provided pursuant to Section 4 of the Plan, a Participant may continue to participate in the following health and welfare benefits provided by

his or her Participating Employer during the Severance Period on the same basis as employees of the Participating Employer:

- (i) medical;
- (ii) dental;
- (iii) vision;
- (iv) employee assistance;
- (v) medical expense reimbursement and dependent care expense reimbursement benefits provided under a cafeteria plan;
- (vi) life insurance (basic and supplemental); and
- (vii) accidental death and dismemberment insurance (basic and supplemental).

For the purposes of any of the above-described benefits provided under a Participating Employer's cafeteria plan, a Qualifying Termination constitutes a "change in status" or "life event."

(b) Payment and Expiration. Payment of the Participant's portion of contribution or premiums for such selected benefits will be withheld from any severance compensation payments paid to the Participant under this Plan. The Participating Employer's partial subsidization of such coverages will remain in effect until the earlier of:

- (i) the expiration or earlier termination of the Employee's Severance Period, after which time the Participant may be eligible to elect to continue coverage of those benefits listed above that are provided under group health plans in accordance with his or her rights under Section 4980B of the Internal Revenue Code; or
- (ii) the Participant's attainment of or eligibility to attain health and welfare benefits through another employer after which time the Participant may be eligible to elect to continue coverage of those benefits listed above that are provided under group health plans in accordance with his or her rights under Section 4980B of the Internal

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Revenue Code.

6. STOCK OPTIONS.

(a) Accelerated Vesting. Any portion of any outstanding incentive stock options and nonqualified stock options that would have vested during the 18-month period following the Termination Date had the Participant remained an employee with the Participating Employer during such 18-month period will vest as of the Termination Date. This Section 6(a) applies only to options (i) granted to the Participant under the Company's 1993 Long-Term Executive Compensation Plan, or any successor plan to its 1993 Long-Term Executive Compensation Plan, not less than 6 months prior to his or her Termination Date and (ii) outstanding at the close of business on such Termination Date. The determination of accelerated vesting under this Section 6(a) shall be made as of the Termination Date and shall be based solely on any time-specific vesting schedule included in the applicable stock option agreement without regard to any accelerated vesting provision not related to the Plan in such agreement.

(b) Post-Termination Exercise Period. Subject to the expiration dates and other terms of the applicable stock option agreements, the Participant may elect to have the right to exercise any outstanding incentive stock options and nonqualified stock options granted prior to the Termination Date to the Participant under the Company's 1984 Long-Term Executive Compensation Plan, its 1993 Long-Term Executive Compensation Plan, or any successor plan to its 1993 Long-Term Executive Compensation Plan that are vested as of the Termination Date

(or, if later, the Release Date), whether due to the operation of Section 6(a), above, or otherwise, at any time during the Severance Period and, except in the event that the Severance Period terminates pursuant to Section 8(a), for a period up to 3 months after the end of the Severance Period (notwithstanding Section 8). Any such election shall apply to all outstanding incentive stock options and nonqualified stock options, will be irrevocable and must be made in writing and delivered to the Plan Administrator on or before the later of the Termination Date or Release Date. If the Participant fails to make an election, the Participant's right to exercise such options will expire 3 months after the Termination Date.

(c) Stock Option Agreement Amendment. The operation of Sections 6(a) and 6(b), above, are subject to the Participant's execution of an amendment to any affected stock option agreements.

7. OUTPLACEMENT SERVICES. In addition to the benefits described above, career transition counseling or outplacement services may be provided upon the Participant's Qualifying Termination. Such outplacement service will be provided at the Participating Employer's sole discretion. Outplacement services are designed to assist employees in their search for new employment and to facilitate a smooth

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transition between employment with the Participating Employer and employment with another employer. Any outplacement services provided under this Plan will be provided by an outplacement service chosen by the Participating Employer. The Participant is not entitled to any monetary payment in lieu of outplacement services.

8. TERMINATION OF BENEFITS. Any right of a Participant to severance compensation and benefits under the Plan, and all obligations of his or her Participating Employer to pay any unpaid severance compensation or provide benefits under the Plan will terminate as of the day:

(a) The Participant has engaged in any conduct described in Sections 8(a)(i), 8(a)(ii), 8(a)(iii) or 8(a)(iv), below, as the same may be limited pursuant to Section 8(a)(vi).

(i) During the Severance Period, the Participant's engagement in, ownership of, or control of any interest in (except as a passive investor in less than one percent of the outstanding securities of publicly held companies), or acting as an officer, director or employee of, or consultant, advisor or lender to, any firm, corporation, partnership, limited liability company, institution, business, government agency, or entity that engages in any line of business that is competitive with any Line of Business of the Company, provided that this Section 8(a)(i) shall not apply to the Participant if the Participant's primary place of employment by a subsidiary of the Company as of the Termination Date is in either the State of California or the State of North Dakota.

(ii) During the Severance Period, the Participant employs or solicits for employment by any employer other than a subsidiary of the Company any employee of any subsidiary of the Company, or recommends any such employee for employment to any employer (other than a subsidiary of the Company) at which the Participant is or intends to be (A) employed, (B) a member of the Board of Directors, (C) a partner, or (D) providing consulting services.

(iii) During the Severance Period, the Participant directly or indirectly solicits or enters into any arrangement with any person or entity which is, at the time of the solicitation, a significant customer of a subsidiary of the Company for the purpose of engaging in any business transaction of the nature performed by such subsidiary, or contemplated to be performed by such subsidiary, for such customer, provided that this Section 8(a)(iii) shall only apply to customers for whom the Participant personally provided services while employed by a subsidiary of the Company or customers about whom or which the

Participant acquired material information while employed by a subsidiary of the Company.

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(iv) During the Severance Period, the Participant misappropriates or improperly uses or discloses confidential information of the Company and/or its subsidiaries.

(v) If the Participant engaged in any of the conduct described in Sections 8(a)(i), 8(a)(ii), 8(a)(iii) or 8(a)(iv) during or after Participant's term of employment with a Participating Employer, but prior to the commencement of the Severance Period, and such engagement becomes known to the Participating Employer during the Severance Period, such conduct shall be deemed, for purposes of Sections 8(a)(i), 8(a)(ii), 8(a)(iii) or 8(a)(iv) to have occurred during the Severance Period.

(vi) If the Participant is a party to an employment contract with a Participating Employer that contains a covenant or covenants relating to the Participant's engagement in conduct that is the same as or substantially similar to the conduct described in any of Sections 8(a)(i), 8(a)(ii), 8(a)(iii) or 8(a)(iv), and any specific conduct regulated in such covenant or covenants in such employment contract is more limited in scope geographically or otherwise than the corresponding specific conduct described in any of such Sections 8(a)(i), 8(a)(ii), 8(a)(iii) or 8(a)(iv), then the corresponding specific conduct addressed in the applicable Section 8(a)(i), 8(a)(ii), 8(a)(iii) or 8(a)(iv) shall be limited to the same extent as such conduct is limited in the employment contract and the Participating Employer's rights and remedy with respect to such conduct under this Section 8 shall apply only to such conduct as so limited.

(b) The Participant is rehired by his or her Participating Employer or hired by any other subsidiary of the Company.

9. AMENDMENT AND TERMINATION. The Plan Sponsor reserves the right to amend the Plan or to terminate the Plan and all benefits hereunder in their entirety at any time.

10. ADMINISTRATION OF PLAN. The Plan Administrator has the power and discretion to construe the provisions of the Plan and to determine all questions relating to the eligibility of employees of Participating Employers to become Participants in the Plan, and the amount of benefits to which any Participant may be entitled thereunder in accordance with the Plan. Not in limitation, but in amplification of the foregoing and of the authority conferred upon the Plan Administrator, the Plan Sponsor specifically intends that the Plan Administrator have the greatest permissible discretion to construe the terms of the Plan and to determine all questions concerning eligibility, participation and benefits. Any such decision made by the Plan Administrator will be binding on all Employees, Participants, and Beneficiaries, and is intended to be subject to the most deferential standard of judicial review. Such standard of review is not to be affected by any

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real or alleged conflict of interest on the part of the Plan Administrator. The decision of the Plan Administrator upon all matters within the scope of its authority will be final and binding.

11. CLAIMS PROCEDURES.

(a) FILING A CLAIM FOR BENEFITS. Participants are not required to submit claim forms to initiate payment of benefits under this Plan. To make a claim for benefits, individuals other than Participants who believe they are entitled to receive benefits under this Plan and Participants who believe they have been denied certain benefits under the Plan must write to the Plan Administrator. These individuals and such Participants are hereinafter referred to in this Section 11 as

"Claimants." Claimants must notify the Plan Administrator if they will be represented by a duly authorized representative with respect to a claim under the Plan.

(b) INITIAL REVIEW OF CLAIMS. The Plan Administrator will evaluate a claim for benefits under the Plan. The Plan Administrator may solicit additional information from the Claimant if necessary to evaluate the claim. If the Plan Administrator denies all or any portion of the claim, the Claimant will receive, within 90 days after the receipt of the written claim, a written notice setting forth:

(i) the specific reason for the denial;

(ii) specific references to pertinent Plan provisions on which the Plan Administrator based its denial;

(iii) a description of any additional material and information needed for the Claimant to perfect his or her claim and an explanation of why the material or information is needed; and

(iv) that any appeal the Claimant wishes to make of the adverse determination must be in writing to the Plan Administrator within 60 days after receipt of the notice of denial of benefits. The notice must advise the Claimant that his or her failure to appeal the action to the Plan Administrator in writing within the 60-day period will render the Plan Administrator's determination final, binding and conclusive. The notice must further advise the Claimant of his or her right to bring a civil action under Section 502(a) of ERISA following the exhaustion of the claims procedures described herein.

(c) APPEAL OF DENIED CLAIM AND FINAL DECISION. If the Claimant should appeal to the Plan Administrator, the Claimant, or his or her duly authorized representative, must submit, in writing, whatever issues and comments the Claimant or his or her duly authorized representative feels are

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pertinent. The Claimant, or his or her duly authorized representative, may review and request pertinent Plan documents. The Plan Administrator will reexamine all facts related to the appeal and make a final determination as to whether the denial of benefits is justified under the circumstances. The Plan Administrator will advise the Claimant in writing of its decision within 60 days of the Claimant's written request for review, unless special circumstances (such as a hearing) require an extension of time, in which case the Plan Administrator will make a decision as soon as possible, but no later than 120 days after its receipt of a request for review.

12. PLAN FINANCING. The benefits to be provided under the Plan will be paid by the applicable Participating Employer, as incurred, out of the general assets of such Participating Employer.

13. GENERAL INFORMATION. The Plan's records are maintained on a calendar year basis. The Plan Number is 509. The Plan is self-administered and is considered a severance plan.

14. GOVERNING LAW. The Plan is established in the State of Missouri. To the extent federal law does not apply, any questions arising under the Plan will be determined under the laws of the State of Missouri.

15. ENFORCEABILITY; SEVERABILITY. If a court of competent jurisdiction determines that any provision of the Plan is not enforceable, then such provision shall be enforceable to the maximum extent possible under applicable law, as determined by such court. The invalidity or unenforceability of any provision of the Plan, as determined by a court of competent jurisdiction, will not affect the validity or enforceability of any other provision of the Plan and all other provisions will remain in full force and effect.

16. WITHHOLDING OF TAXES. The applicable Participating Employer may withhold from any benefit payable under the Plan all federal, state, city or other taxes

as may be required pursuant to any law, governmental regulation or ruling. The Participant shall pay upon demand by the Company or the Participating Employer any taxes required to be withheld or collected by the Company or the Participating Employer upon the exercise by the Participant of a nonqualified stock option granted under the Company's 1984 Long-Term Executive Compensation Plan or its 1993 Long-Term Executive Compensation Plan. If the Participant fails to pay any such taxes associated with such exercise upon demand, the Participating Employer shall have the right, but not the obligation, to offset such taxes against any unpaid severance compensation under this Plan.

17. NOT AN EMPLOYMENT AGREEMENT. Nothing in the Plan gives an Employee any rights (or imposes any obligations) to continued employment by his or her Participating Employer or other subsidiary of the Company, nor does it give such Participating Employer any rights (or impose any obligations) for the continued

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performance of duties by the Employee for the Participating Employer or any other subsidiary of the Company.

18. NO ASSIGNMENT. The Employee's right to receive payments of severance compensation and benefits under the Plan are not assignable or transferable, whether by pledge, creation of a security interest, or otherwise. In the event of any attempted assignment or transfer contrary to this section, the applicable Participating Employer will have no liability to pay any amount so attempted to be assigned or transferred.

19. SERVICE OF PROCESS. The Secretary of the Plan Administrator is designated as agent for service of legal process. Service of legal process may be made upon the Secretary of the Plan Administrator at:

HRB Management, Inc.
Attn: Secretary
4400 Main Street
Kansas City, Missouri 64111

20. STATEMENT OF ERISA RIGHTS. As a participant in the Plan, you are entitled to certain rights and protections under ERISA, which provides that all Plan Participants are entitled to:

(a) examine without charge, at the Plan Administrator's office, all documents governing the Plan and a copy of the latest annual report (Form 5500 Series) filed by the Plan with the U.S. Department of Labor and available at the Public Disclosure Room of the Pension and Welfare Benefit Administration;

(b) obtain, upon written request to the Plan Administrator, copies of documents governing the operation of the Plan, copies of the latest annual report (Form 5500 Series) and an updated summary plan description. The Plan Administrator may make a reasonable charge for the copies; and

(c) receive a summary of the Plan's annual financial report if required to be filed for the year. The Plan Administrator is required by law to furnish each participant with a copy of this summary annual report if an annual report is required to be filed for the year.

In addition to creating rights for Plan Participants, ERISA imposes duties upon the people who are responsible for the operation of the Plan. The people who operate your Plan, called "fiduciaries" of the Plan, have a duty to do so prudently and in the interest of you and other Plan Participants and beneficiaries. No one, including your Participating Employer or any other person, may fire you or otherwise discriminate against you in any way to prevent you from obtaining a welfare benefit or exercising your rights under ERISA.

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If your claim for a welfare benefit is denied or ignored, in whole or in part, you have the right to know why this was done, to obtain copies of documents relating to the decision without charge, and to appeal any denial, all within certain time schedules.

Under ERISA, there are steps you can take to enforce the above rights. For instance, if you request a copy of plan documents or the latest annual report from the Plan and do not receive them within 30 days, you may file suit in a Federal court. In such a case, the court may require the Plan Administrator to provide the materials to you and pay you up to \$110 a day until you receive the materials, unless the materials were not sent because of reasons beyond the control of the Plan Administrator. If you have a claim for benefits that is denied or ignored, in whole or in part, you may file suit in a state or Federal court. If it should happen that you are discriminated against for asserting your rights, you may seek assistance from the U. S. Department of Labor, or you may file suit in a Federal court. The court will decide who should pay court costs and legal fees. If you are successful, the court may order the person you have sued to pay these costs and fees. If you lose, the court may order you to pay these costs and fees, for example, if it finds your claim is frivolous.

If you have any questions about the Plan, you should contact the Plan Administrator. If you have questions about this statement or about your rights under ERISA, or if you need assistance in obtaining documents from the Plan Administrator, you should contact the nearest office of the Pension and Welfare Benefits Administration, U.S. Department of Labor, listed in your telephone directory or the Division of Technical Assistance and Inquiries, Pension and Welfare Benefits Administration, U.S. Department of Labor, 200 Constitution Avenue N.W., Washington, D.C. 20210. You may also obtain certain publications about your rights and responsibilities under ERISA by calling the publications hotline of the Pension and Welfare Benefits Administration.

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IN WITNESS WHEREOF, HRB Management, Inc. adopts this Severance Plan effective this 23rd day of April, 2001.

HRB MANAGEMENT, INC.

/s/ Mark A. Ernst

Mark A. Ernst
President and Chief Executive Officer

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SCHEDULE A

PARTICIPATING EMPLOYERS

Block Financial Corporation

Financial Marketing Services, Inc.

Franchise Partner, Inc.

H&R Block Investments, Inc.

H&R Block Services, Inc. and its U.S.-based direct and indirect subsidiaries

HRB Business Services, Inc.

HRB Management, Inc.

HRB Retail Services, Inc.

Olde Financial Corporation and its U.S.-based direct and indirect subsidiaries, which subsidiaries include H&R Block Financial Advisors, Inc.

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EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT ("Agreement") is entered into as of September 12, 2001, by and between HRB Management, Inc., a Missouri corporation (the "Company"), and James H. Ingraham ("Executive").

ARTICLE ONE

EMPLOYMENT

1.01 - Agreement as to Employment. Effective September 12, 2001 (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 the Senior Vice President, General Counsel and Secretary of H&R Block, Inc., a Missouri corporation ("Block") and the indirect parent corporation of the Company, subject to the authority and direction of the Board of Directors of Block and the Chief Executive Officer of Block. Subject to the foregoing, Executive will have such authority and responsibility and duties as are normally associated with the position of Senior Vice President, General Counsel and Secretary. The Company reserves the right to modify, delete, add, or otherwise change Executive's job responsibilities, in its sole discretion, at any time. Executive will perform such other duties 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

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the Company without notice.

1.03 - Compensation.

(a) Base Salary. The Company will pay to Executive a gross salary at an annual rate of \$200,000 ("Base Salary"), payable semimonthly or at any other pay periods as the Company may use for its other executive employees. The Base Salary will be reviewed for adjustment no less often than annually during the term of Executive's employment hereunder and, if adjusted, such adjusted amount will become the "Base Salary" for purposes of this Agreement.

(b) Base Salary Increase. The parties acknowledge and agree that (i) the Base Salary set forth in Section 1.03(a) above includes a \$32,000 increase over the annual rate of base salary paid by the Company to Executive prior to the Employment Date, (ii) said increase is in connection with Executive's promotion to Senior Vice President, General Counsel and Secretary of

Block, and (iii) said increase constitutes additional consideration for the entry by the parties into this Agreement.

1.04 - 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.

1.05 - 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.

1.06 - 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

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

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

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

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

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

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

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

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

(c) Termination Due to a Change of Control.

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

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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 1.06(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

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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 executes an agreement with the Company under which Executive releases all known and potential claims against Block, the Company, and Affiliates. Such compensation and benefits will be Executive's election (the "Severance Election") of the same level of severance compensation and benefits as would be provided under the Severance Plan as such plan exists either (A) on the date of this Agreement or (B) Executive's Last Day of Employment. The Severance Plan as it exists on the date of this Agreement is attached hereto as Exhibit A. Executive must notify the Company in writing within 5 business days after Executive's Last Day of Employment of Executive's Severance Election. Severance compensation and benefits provided under this Section 1.06(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 1.06, (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

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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

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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

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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 (except to the extent that such act constitutes the practice of law) 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. Nothing in this Section 3.05 is to be construed to limit in any manner Executive's ability to practice law after employment with the Company or to be inconsistent with any state or local rules of professional conduct that govern Executive's conduct as a lawyer.

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.

MISCELLANEOUS

4.01 - Third-Party Beneficiary. The parties hereto agree that Block is a third-party

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beneficiary as to the obligations imposed upon Executive under this Agreement and as to the rights and privileges to which the Company is entitled pursuant to this Agreement, and that Block is entitled to all of the rights and privileges associated with such third-party-beneficiary status.

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

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

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

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

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

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

4.08 - Waiver of Jury Trial. Both parties to this Agreement, and Block, as a third-party beneficiary pursuant to Section 4.01 of this Agreement, waive any and all right to any trial by jury in any action or

proceeding directly or indirectly related to this Agreement and Executive's employment hereunder.

4.09 - Notices. All notices required or desired to be given hereunder must be in writing and will be deemed served and delivered if delivered in person or mailed, postage prepaid to Executive at: 4400 Main Street, Kansas City, Missouri 64111; and to the Company at: 4400 Main Street, Kansas City, Missouri 64111, Attn: President; 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: January 30, 2002

/s/ James H. Ingraham

James H. Ingraham

Accepted and Agreed:

HRB MANAGEMENT, INC.
a Missouri corporation

By: /s/ Mark A. Ernst

Mark Ernst
President and Chief Executive Officer

Dated: 1 Feb 02

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EMPLOYMENT AGREEMENT EXHIBIT A
H&R BLOCK SEVERANCE PLAN
(AS AMENDED MAY 17, 2001)

1. PURPOSE. The H&R Block Severance Plan is a welfare benefit plan established by HRB Management, Inc., an indirect subsidiary of H&R Block, Inc., for the benefit of certain subsidiaries of H&R Block, Inc. in order to provide severance compensation and benefits to certain employees of such subsidiaries whose employment is involuntarily terminated under the conditions set forth herein. This document constitutes both the plan document and the summary plan description required by the Employee Retirement Income Security Act of 1974.

2. DEFINITIONS.

(a) "Company" means H&R Block, Inc.

(b) "Employee" means a regular full-time or part-time, active employee of a Participating Employer whose employment with a Participating Employer is not subject to an employment contract that contains a provision that includes severance benefits. This definition expressly excludes seasonal, temporary and inactive employees of a Participating Employer and employees who are customarily employed by a Participating Employer less than 20 hours per week.

(c) "ERISA" means the Employee Retirement Income Security Act of 1974, as amended.

(d) "Hour of Service" means each hour for which an individual was

entitled to compensation as a regular full-time or part-time employee from a subsidiary of the Company.

(e) "Line of Business of the Company" with respect to a Participant means any line of business of the Participating Employer by which the Participant was employed as of the Termination Date, as well as any one or more lines of business of any other subsidiary of the Company by which the Participant was employed during the two-year period preceding the Termination Date, provided that, if Participant's employment was, as of the Termination Date or during the two-year period immediately prior to the Termination Date, with HRB Management, Inc. or any successor entity thereto, "Line of Business of the Company" shall mean any lines of business of the Company and all of its subsidiaries.

(f) "Participant" means an Employee who has incurred a Qualifying Termination and has signed a Release that has not been revoked during any

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revocation period provided under the Release.

(g) "Participating Employer" means a direct or indirect subsidiary of the Company (i) listed on Schedule A, attached hereto, which may change from time to time to reflect new Participating Employers or withdrawing Participating Employers, and (ii) approved by the Plan Sponsor for participation in the Plan.

(h) "Plan" means the "H&R Block Severance Plan," as stated herein, and as may be amended from time to time.

(i) "Plan Administrator" and "Plan Sponsor" means HRB Management, Inc. The address and telephone number of HRB Management, Inc. is 4400 Main Street, Kansas City, Missouri 64111, (816) 753-6900. The Employer Identification Number assigned to HRB Management, Inc. by the Internal Revenue Service is 43-1632589.

(j) "Qualifying Termination" means the involuntary termination of an Employee, but does not include a termination resulting from:

(i) the termination of an Employee as a result of the elimination of the Employee's position where the Employee was offered another position with a subsidiary of the Company at a comparable salary and benefit level, or where the termination results from a sale of assets or other corporate acquisition;

(ii) the redefinition of an Employee's position to a lower salary rate;

(iii) the termination of an Employee for cause; or

(iv) the non-renewal of employment contracts.

(k) "Release" means that agreement signed by and between an Employee who is eligible to participate in the Plan and the Employee's Participating Employer under which the Employee releases all known and potential claims against the Employee's Participating Employer and all of such employer's parents, subsidiaries, and affiliates.

(l) "Release Date" means, with respect to a Release that includes a revocation period, the date immediately following the expiration date of the revocation period in the Release that has been fully executed by both parties. "Release Date" means, with respect to a Release that does not include a revocation period, the date the Release has been fully executed by both parties.

(m) "Severance Period" means the period of time during which a Participant may receive benefits under this Plan. The Severance Period with

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respect to a Participant begins on the Termination Date. A Participant's Severance Period will be the shorter of (i) 12 months or (ii) a number of months equal to the whole number of Years of Service determined under Section 2(p), unless earlier terminated in accordance with Section 8 of the Plan.

(n) "Termination Date" means the date the Employee severs employment with a Participating Employer.

(o) "Monthly Salary" means -

(i) with respect to an Employee paid on a salary basis, the Employee's current annual salary divided by 12; and

(ii) with respect to an Employee paid on an hourly basis, the Employee's current hourly rate times the number of hours he or she is regularly scheduled to work per week multiplied by 52 and then divided by 12.

(p) "Year of Service" means each period of 12 consecutive months ending on the Employee's employment anniversary date during which the Employee had at least 1,000 Hours of Service. In determining a Participant's Years of Service, the Participant will be credited with a partial Year of Service for his or her final period of employment commencing on his or her most recent employment anniversary date equal to a fraction calculated in accordance with the following formula:

$$\frac{\text{Number of days since most recent employment anniversary date}}{\text{-----}} \\ 365$$

Despite an Employee's Years of Service calculated in accordance with the above, an Employee whose pay grade at his or her Participating Employer fits in the following categories at the time of the Qualifying Termination will be credited with no less than the specified Minimum Years of Service and no more than the specified Maximum Years of Service listed in the following table as applicable to such pay grade:

PAY GRADE -----	MINIMUM YEARS OF SERVICE -----	MAXIMUM YEARS OF SERVICE -----
81-89 and 231-235	6	18
65-80, 109-110, and 218-230	3	18
57-64, 105-108, and 210-217	1	18
48-56, 100-102, and 200-209	1	18

3. ELIGIBILITY AND PARTICIPATION. All Employees who incur a Qualifying Termination and sign a Release are eligible to participate in the Plan. An eligible Employee will become a Participant in the Plan as of the Termination Date.

4. SEVERANCE COMPENSATION.

(a) Amount. Subject to Section 8, each Participant will receive during the Severance Period from the applicable Participating Employer aggregate severance compensation equal to:

(i) the Participant's Monthly Salary multiplied by the Participant's Years of Service; plus

(ii) one-twelfth of the Participant's target payout under the Short-Term Incentive Program of the Participating Employer in effect at the time of his or her Termination Date multiplied by the Participant's Years of Service; plus

(iii) an amount to be determined by the Participating Employer at its sole discretion, which amount may be zero.

(b) Timing of Payments. Except as stated in Section 4(c), and subject to Section 8,

(i) the sum of any amounts determined under Sections 4(a)(i) and 4(a)(ii) of the Plan will be paid in semi-monthly or bi-weekly installments (the timing and amount of each installment as determined by the Participating Employer) during the Severance Period beginning after the later of the Termination Date or the Release Date; and

(ii) any amounts determined under Section 4(a)(iii) of the Plan will be paid in one lump sum within 15 days after the later of the Termination Date or the Release Date, unless otherwise agreed in writing by the Participating Employer and Participant or otherwise required by law.

(c) Death. In the event of the Participant's death prior to receiving all payments due under this Section 4, any unpaid severance compensation will be paid (i) in the same manner as are death benefits under the Participant's basic life insurance coverage provided by the Participant's Participating Employer, and (ii) in accordance with the Participant's beneficiary designation under such coverage. If no such coverage exists, or if no beneficiary designation exists under such coverage as of the date of death of the Participant, the severance compensation will be paid to the Participant's estate in one-lump sum.

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5. HEALTH AND WELFARE BENEFITS.

(a) Benefits. In addition to the severance compensation provided pursuant to Section 4 of the Plan, a Participant may continue to participate in the following health and welfare benefits provided by his or her Participating Employer during the Severance Period on the same basis as employees of the Participating Employer:

(i) medical;

(ii) dental;

(iii) vision;

(iv) employee assistance;

(v) medical expense reimbursement and dependent care expense reimbursement benefits provided under a cafeteria plan;

(vi) life insurance (basic and supplemental); and

(vii) accidental death and dismemberment insurance (basic and supplemental).

For the purposes of any of the above-described benefits provided under a Participating Employer's cafeteria plan, a Qualifying Termination constitutes a "change in status" or "life event."

(b) Payment and Expiration. Payment of the Participant's portion of contribution or premiums for such selected benefits will be withheld from any severance compensation payments paid to the Participant under this Plan. The Participating Employer's partial subsidization of such coverages will remain in effect until the earlier of:

(i) the expiration or earlier termination of the Employee's Severance Period, after which time the Participant may be eligible to elect to continue coverage of those benefits

listed above that are provided under group health plans in accordance with his or her rights under Section 4980B of the Internal Revenue Code; or

(ii) the Participant's attainment of or eligibility to attain health and welfare benefits through another employer after which time the Participant may be eligible to elect to continue coverage of those benefits listed above that are provided under group health plans in accordance with his or her rights under Section 4980B of the Internal

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Revenue Code.

6. STOCK OPTIONS.

(a) Accelerated Vesting. Any portion of any outstanding incentive stock options and nonqualified stock options that would have vested during the 18-month period following the Termination Date had the Participant remained an employee with the Participating Employer during such 18-month period will vest as of the Termination Date. This Section 6(a) applies only to options (i) granted to the Participant under the Company's 1993 Long-Term Executive Compensation Plan, or any successor plan to its 1993 Long-Term Executive Compensation Plan, not less than 6 months prior to his or her Termination Date and (ii) outstanding at the close of business on such Termination Date. The determination of accelerated vesting under this Section 6(a) shall be made as of the Termination Date and shall be based solely on any time-specific vesting schedule included in the applicable stock option agreement without regard to any accelerated vesting provision not related to the Plan in such agreement.

(b) Post-Termination Exercise Period. Subject to the expiration dates and other terms of the applicable stock option agreements, the Participant may elect to have the right to exercise any outstanding incentive stock options and nonqualified stock options granted prior to the Termination Date to the Participant under the Company's 1984 Long-Term Executive Compensation Plan, its 1993 Long-Term Executive Compensation Plan, or any successor plan to its 1993 Long-Term Executive Compensation Plan that are vested as of the Termination Date (or, if later, the Release Date), whether due to the operation of Section 6(a), above, or otherwise, at any time during the Severance Period and, except in the event that the Severance Period terminates pursuant to Section 8(a), for a period up to 3 months after the end of the Severance Period (notwithstanding Section 8). Any such election shall apply to all outstanding incentive stock options and nonqualified stock options, will be irrevocable and must be made in writing and delivered to the Plan Administrator on or before the later of the Termination Date or Release Date. If the Participant fails to make an election, the Participant's right to exercise such options will expire 3 months after the Termination Date.

(c) Stock Option Agreement Amendment. The operation of Sections 6(a) and 6(b), above, are subject to the Participant's execution of an amendment to any affected stock option agreements.

7. OUTPLACEMENT SERVICES. In addition to the benefits described above, career transition counseling or outplacement services may be provided upon the Participant's Qualifying Termination. Such outplacement service will be provided at the Participating Employer's sole discretion. Outplacement services are designed to assist employees in their search for new employment and to facilitate a smooth

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transition between employment with the Participating Employer and employment with another employer. Any outplacement services provided under this Plan will be provided by an outplacement service chosen by the Participating Employer. The Participant is not entitled to any monetary payment in lieu of outplacement services.

8. TERMINATION OF BENEFITS. Any right of a Participant to severance compensation and benefits under the Plan, and all obligations of his or her Participating Employer to pay any unpaid severance compensation or provide benefits under the Plan will terminate as of the day:

(a) The Participant has engaged in any conduct described in Sections 8(a)(i), 8(a)(ii), 8(a)(iii) or 8(a)(iv), below, as the same may be limited pursuant to Section 8(a)(vi).

(i) During the Severance Period, the Participant's engagement in, ownership of, or control of any interest in (except as a passive investor in less than one percent of the outstanding securities of publicly held companies), or acting as an officer, director or employee of, or consultant, advisor or lender to, any firm, corporation, partnership, limited liability company, institution, business, government agency, or entity that engages in any line of business that is competitive with any Line of Business of the Company, provided that this Section 8(a)(i) shall not apply to the Participant if the Participant's primary place of employment by a subsidiary of the Company as of the Termination Date is in either the State of California or the State of North Dakota.

(ii) During the Severance Period, the Participant employs or solicits for employment by any employer other than a subsidiary of the Company any employee of any subsidiary of the Company, or recommends any such employee for employment to any employer (other than a subsidiary of the Company) at which the Participant is or intends to be (A) employed, (B) a member of the Board of Directors, (C) a partner, or (D) providing consulting services.

(iii) During the Severance Period, the Participant directly or indirectly solicits or enters into any arrangement with any person or entity which is, at the time of the solicitation, a significant customer of a subsidiary of the Company for the purpose of engaging in any business transaction of the nature performed by such subsidiary, or contemplated to be performed by such subsidiary, for such customer, provided that this Section 8(a)(iii) shall only apply to customers for whom the Participant personally provided services while employed by a subsidiary of the Company or customers about whom or which the Participant acquired material information while employed by a subsidiary of the Company.

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(iv) During the Severance Period, the Participant misappropriates or improperly uses or discloses confidential information of the Company and/or its subsidiaries.

(v) If the Participant engaged in any of the conduct described in Sections 8(a)(i), 8(a)(ii), 8(a)(iii) or 8(a)(iv) during or after Participant's term of employment with a Participating Employer, but prior to the commencement of the Severance Period, and such engagement becomes known to the Participating Employer during the Severance Period, such conduct shall be deemed, for purposes of Sections 8(a)(i), 8(a)(ii), 8(a)(iii) or 8(a)(iv) to have occurred during the Severance Period.

(vi) If the Participant is a party to an employment contract with a Participating Employer that contains a covenant or covenants relating to the Participant's engagement in conduct that is the same as or substantially similar to the conduct described in any of Sections 8(a)(i), 8(a)(ii), 8(a)(iii) or 8(a)(iv), and any specific conduct regulated in such covenant or covenants in such employment contract is more limited in scope geographically or otherwise than the corresponding specific conduct described in any of such Sections 8(a)(i), 8(a)(ii), 8(a)(iii) or 8(a)(iv), then the corresponding specific conduct addressed in the applicable Section 8(a)(i), 8(a)(ii), 8(a)(iii) or 8(a)(iv) shall be limited to the same

extent as such conduct is limited in the employment contract and the Participating Employer's rights and remedy with respect to such conduct under this Section 8 shall apply only to such conduct as so limited.

(b) The Participant is rehired by his or her Participating Employer or hired by any other subsidiary of the Company.

9. AMENDMENT AND TERMINATION. The Plan Sponsor reserves the right to amend the Plan or to terminate the Plan and all benefits hereunder in their entirety at any time.

10. ADMINISTRATION OF PLAN. The Plan Administrator has the power and discretion to construe the provisions of the Plan and to determine all questions relating to the eligibility of employees of Participating Employers to become Participants in the Plan, and the amount of benefits to which any Participant may be entitled thereunder in accordance with the Plan. Not in limitation, but in amplification of the foregoing and of the authority conferred upon the Plan Administrator, the Plan Sponsor specifically intends that the Plan Administrator have the greatest permissible discretion to construe the terms of the Plan and to determine all questions concerning eligibility, participation and benefits. Any such decision made by the Plan Administrator will be binding on all Employees, Participants, and Beneficiaries, and is intended to be subject to the most deferential standard of judicial review. Such standard of review is not to be affected by any

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real or alleged conflict of interest on the part of the Plan Administrator. The decision of the Plan Administrator upon all matters within the scope of its authority will be final and binding.

11. CLAIMS PROCEDURES.

(a) FILING A CLAIM FOR BENEFITS. Participants are not required to submit claim forms to initiate payment of benefits under this Plan. To make a claim for benefits, individuals other than Participants who believe they are entitled to receive benefits under this Plan and Participants who believe they have been denied certain benefits under the Plan must write to the Plan Administrator. These individuals and such Participants are hereinafter referred to in this Section 11 as "Claimants." Claimants must notify the Plan Administrator if they will be represented by a duly authorized representative with respect to a claim under the Plan.

(b) INITIAL REVIEW OF CLAIMS. The Plan Administrator will evaluate a claim for benefits under the Plan. The Plan Administrator may solicit additional information from the Claimant if necessary to evaluate the claim. If the Plan Administrator denies all or any portion of the claim, the Claimant will receive, within 90 days after the receipt of the written claim, a written notice setting forth:

(i) the specific reason for the denial;

(ii) specific references to pertinent Plan provisions on which the Plan Administrator based its denial;

(iii) a description of any additional material and information needed for the Claimant to perfect his or her claim and an explanation of why the material or information is needed; and

(iv) that any appeal the Claimant wishes to make of the adverse determination must be in writing to the Plan Administrator within 60 days after receipt of the notice of denial of benefits. The notice must advise the Claimant that his or her failure to appeal the action to the Plan Administrator in writing within the 60-day period will render the Plan Administrator's determination final, binding and conclusive. The notice must further advise the Claimant of his or her right to bring a civil action under Section 502(a) of ERISA following the exhaustion of the claims procedures described herein.

(c) APPEAL OF DENIED CLAIM AND FINAL DECISION. If the Claimant should appeal to the Plan Administrator, the Claimant, or his or her duly authorized representative, must submit, in writing, whatever issues and comments the Claimant or his or her duly authorized representative feels are

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pertinent. The Claimant, or his or her duly authorized representative, may review and request pertinent Plan documents. The Plan Administrator will reexamine all facts related to the appeal and make a final determination as to whether the denial of benefits is justified under the circumstances. The Plan Administrator will advise the Claimant in writing of its decision within 60 days of the Claimant's written request for review, unless special circumstances (such as a hearing) require an extension of time, in which case the Plan Administrator will make a decision as soon as possible, but no later than 120 days after its receipt of a request for review.

12. PLAN FINANCING. The benefits to be provided under the Plan will be paid by the applicable Participating Employer, as incurred, out of the general assets of such Participating Employer.

13. GENERAL INFORMATION. The Plan's records are maintained on a calendar year basis. The Plan Number is 509. The Plan is self-administered and is considered a severance plan.

14. GOVERNING LAW. The Plan is established in the State of Missouri. To the extent federal law does not apply, any questions arising under the Plan will be determined under the laws of the State of Missouri.

15. ENFORCEABILITY; SEVERABILITY. If a court of competent jurisdiction determines that any provision of the Plan is not enforceable, then such provision shall be enforceable to the maximum extent possible under applicable law, as determined by such court. The invalidity or unenforceability of any provision of the Plan, as determined by a court of competent jurisdiction, will not affect the validity or enforceability of any other provision of the Plan and all other provisions will remain in full force and effect.

16. WITHHOLDING OF TAXES. The applicable Participating Employer may withhold from any benefit payable under the Plan all federal, state, city or other taxes as may be required pursuant to any law, governmental regulation or ruling. The Participant shall pay upon demand by the Company or the Participating Employer any taxes required to be withheld or collected by the Company or the Participating Employer upon the exercise by the Participant of a nonqualified stock option granted under the Company's 1984 Long-Term Executive Compensation Plan or its 1993 Long-Term Executive Compensation Plan. If the Participant fails to pay any such taxes associated with such exercise upon demand, the Participating Employer shall have the right, but not the obligation, to offset such taxes against any unpaid severance compensation under this Plan.

17. NOT AN EMPLOYMENT AGREEMENT. Nothing in the Plan gives an Employee any rights (or imposes any obligations) to continued employment by his or her Participating Employer or other subsidiary of the Company, nor does it give such Participating Employer any rights (or impose any obligations) for the continued

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performance of duties by the Employee for the Participating Employer or any other subsidiary of the Company.

18. NO ASSIGNMENT. The Employee's right to receive payments of severance compensation and benefits under the Plan are not assignable or transferable, whether by pledge, creation of a security interest, or otherwise. In the event of any attempted assignment or transfer contrary to this section, the applicable Participating Employer will have no liability to pay any amount so attempted to be assigned or transferred.

19. SERVICE OF PROCESS. The Secretary of the Plan Administrator is designated as agent for service of legal process. Service of legal process may be made upon the Secretary of the Plan Administrator at:

HRB Management, Inc.
Attn: Secretary
4400 Main Street
Kansas City, Missouri 64111

20. STATEMENT OF ERISA RIGHTS. As a participant in the Plan, you are entitled to certain rights and protections under ERISA, which provides that all Plan Participants are entitled to:

(a) examine without charge, at the Plan Administrator's office, all documents governing the Plan and a copy of the latest annual report (Form 5500 Series) filed by the Plan with the U.S. Department of Labor and available at the Public Disclosure Room of the Pension and Welfare Benefit Administration;

(b) obtain, upon written request to the Plan Administrator, copies of documents governing the operation of the Plan, copies of the latest annual report (Form 5500 Series) and an updated summary plan description. The Plan Administrator may make a reasonable charge for the copies; and

(c) receive a summary of the Plan's annual financial report if required to be filed for the year. The Plan Administrator is required by law to furnish each participant with a copy of this summary annual report if an annual report is required to be filed for the year.

In addition to creating rights for Plan Participants, ERISA imposes duties upon the people who are responsible for the operation of the Plan. The people who operate your Plan, called "fiduciaries" of the Plan, have a duty to do so prudently and in the interest of you and other Plan Participants and beneficiaries. No one, including your Participating Employer or any other person, may fire you or otherwise discriminate against you in any way to prevent you from obtaining a welfare benefit or exercising your rights under ERISA.

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If your claim for a welfare benefit is denied or ignored, in whole or in part, you have the right to know why this was done, to obtain copies of documents relating to the decision without charge, and to appeal any denial, all within certain time schedules.

Under ERISA, there are steps you can take to enforce the above rights. For instance, if you request a copy of plan documents or the latest annual report from the Plan and do not receive them within 30 days, you may file suit in a Federal court. In such a case, the court may require the Plan Administrator to provide the materials to you and pay you up to \$110 a day until you receive the materials, unless the materials were not sent because of reasons beyond the control of the Plan Administrator. If you have a claim for benefits that is denied or ignored, in whole or in part, you may file suit in a state or Federal court. If it should happen that you are discriminated against for asserting your rights, you may seek assistance from the U. S. Department of Labor, or you may file suit in a Federal court. The court will decide who should pay court costs and legal fees. If you are successful, the court may order the person you have sued to pay these costs and fees. If you lose, the court may order you to pay these costs and fees, for example, if it finds your claim is frivolous.

If you have any questions about the Plan, you should contact the Plan Administrator. If you have questions about this statement or about your rights under ERISA, or if you need assistance in obtaining documents from the Plan Administrator, you should contact the nearest office of the Pension and Welfare Benefits Administration, U.S. Department of Labor, listed in your telephone directory or the Division of Technical Assistance and Inquiries, Pension and Welfare Benefits Administration, U.S. Department of Labor, 200 Constitution Avenue N.W., Washington, D.C. 20210. You may also obtain certain publications about your rights and responsibilities under ERISA by calling the publications hotline of the Pension and Welfare Benefits Administration.

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IN WITNESS WHEREOF, HRB Management, Inc. adopts this Severance Plan effective

this 23rd day of April, 2001.

HRB MANAGEMENT, INC.

/s/ Mark A. Ernst

Mark A. Ernst
President and Chief Executive Officer

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SCHEDULE A

PARTICIPATING EMPLOYERS

Block Financial Corporation

Financial Marketing Services, Inc.

Franchise Partner, Inc.

H&R Block Investments, Inc.

H&R Block Services, Inc. and its U.S.-based direct and indirect subsidiaries

HRB Business Services, Inc.

HRB Management, Inc.

HRB Retail Services, Inc.

Olde Financial Corporation and its U.S.-based direct and indirect subsidiaries,
which subsidiaries include H&R Block Financial Advisors, Inc.

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EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT ("Agreement") is entered into as of November 5, 2001, by and between H&R Block Financial Advisors, Inc., a Michigan corporation (the "Company"), and Brian L. Nygaard ("Executive").

ARTICLE ONE

EMPLOYMENT

1.01 - Agreement as to Employment. Effective November 5, 2001 or an earlier date as agreed upon by both parties (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 President and Chief Executive Officer, subject to the authority and direction of the Board of Directors of the Company and the Chief Executive Officer of H&R Block, Inc. ("Block"). Subject to the foregoing, Executive will have such authority and responsibility and duties as are normally associated with the position of President. The Company reserves the right to modify, delete, add, or otherwise change Executive's job responsibilities, in its sole discretion, at any time. Executive will perform such other duties 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.

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1.03 - Compensation.

(a) Base Salary. The Company will pay to Executive a gross salary at an annual rate of \$350,000 ("Base Salary"), payable semimonthly or at any other pay periods as the Company may use for its other executive employees. The Base Salary will be reviewed for adjustment no less often than annually during the term of Executive's employment hereunder and, if adjusted, such adjusted amount will become the "Base Salary" for purposes of this Agreement.

(b) Short-Term Incentive Compensation. As approved by the Compensation Committee of the Board of Block, Executive shall participate in the H&R Block Short-Term Incentive Plan and the discretionary short-term incentive program. Under such Plan and program, Executive shall have an aggregate target bonus for calendar year 2001 of \$192,500 and an opportunity to earn 200% of such target bonus. The payment of the actual award under such Plan and program shall be based upon such performance criteria which shall be determined by the Compensation Committee of Block. Under such Plan and program, for calendar year 2001 only, Executive's actual incentive compensation shall be prorated based upon the number of months during such year that he is actually employed by the

Company but shall be no less than \$300,000 (after such proration), provided that Executive must remain employed through December 31, 2001 to receive any payments under the Plan and program. Such incentive compensation shall be paid to Executive following the completion of calendar year 2001 when the same is paid to other senior executives of the Company. If Executive voluntarily terminates his employment with the Company prior to the expiration of 12 months after the Employment Date, other than for "good reason" (as defined in Section 1.07(a)(ii)) or following a "Change of Control" (as defined in Section 1.07(a)(iii)) or if the Company terminates Executive with "cause" (as defined in Section 1.07(a)(iv)), Executive shall reimburse the Company 50% of Executive's actual incentive compensation paid on account of calendar year 2001 (which in no case will be less than \$150,000) on or before the 30th day after the effective date of such termination. In addition, Executive shall be eligible to earn additional incentive compensation in an amount from 0% to 25% of annual base salary based upon the assessment of the Compensation Committee of the Board of Directors of Block or the Board of Directors of Block itself of the performance of Block and its subsidiaries during calendar year 2002 with respect to long-term strategic objectives. Such additional incentive compensation, if any, shall be paid to Executive following the completion of calendar year 2002 when the same is paid to other senior executives of the Company.

(c) Stock Options. As authorized under the H&R Block 1993 Long-Term Executive Compensation Plan, as amended (the "1993 Plan"), Executive shall be granted (i) on the Employment Date a stock option under the 1993 Plan to purchase 40,000 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 (13,333) of the shares covered thereby on the second anniversary of the date of grant, as to an additional one-third (13,333) of such shares on the third anniversary of the date of grant, and as to the remaining one-third (13,334) of the shares on the fourth anniversary of the date of grant; to be an incentive stock option for the maximum

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number of shares permitted by Internal Revenue Code Section 422 and the regulations promulgated thereunder; to otherwise be a nonqualified stock option; and (ii) a stock option to purchase a minimum of 50,000 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 in fiscal year 2003 on which options are granted under the 1993 Plan to all or substantially all other senior executive officers of Block and its subsidiaries, such stock option to have terms and conditions consistent with the terms and conditions of options granted to such other senior executive officers except as provided in Section 1.07(a).

(d) Restricted Stock. As approved by the Compensation Committee of the Board of Block and the Board of Block itself, Executive shall be awarded promptly after the Employment Date, 14,500 Restricted Shares of Block's common stock under the 1993 Plan. One-third of the 14,500 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 4,833, 4,833 and 4834 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.

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1.07 - Termination of Employment.

(a) Termination for Good Reason, Due to a Change of Control or Without Cause.

(i) If Executive terminates Executive's employment under this Agreement for "good reason" (as defined in subsection 1.07(a)(ii), below), or during the 180-day period following the date of the occurrence of a "Change of Control" (as defined in subsection 1.07(a)(iii), below) of Block, or if the Company terminates Executive's employment under this Agreement for any reason other than for "cause" (as defined in subsection 1.07(a)(iv), below) 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); provided, however, that 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, (1) the "Severance Period" (as such term is defined in the Severance Plan) will be 24 months, notwithstanding any provision in the Severance Plan to the contrary, (2) Executive will be credited with 24 "Years of Service" (as such term is defined in the Severance Plan) for the purpose of determining severance compensation under Section 4(a)(i) 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, (3) Executive will receive an amount equal to Executive's most recent payment under the H&R Block Short-Term Incentive Plan and the discretionary short-term incentive program (except in the case of a "Change of Control" that occurs in calendar year 2002, in which case Executive will receive \$192,500) in lieu of any amount calculated under Section 4(a)(ii) 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 to be paid out over the Severance Period, and (4) any nonvested portion of stock options or nonvested Restricted Shares awarded pursuant to Sections 1.03(c)(i) and 1.03(d) of this Agreement shall immediately vest on Executive's Last Day of Employment notwithstanding any provision in the Severance Plan to the contrary. In the event 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, all restrictions on any Restricted Shares awarded to Executive, other than the Restricted Shares awarded pursuant to Section 1.03(d) of this Agreement, 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

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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. In the event of the termination of employment by Executive for good reason, or the termination of employment by the Company for any reason other than for "cause," all restrictions on any Restricted Shares awarded to Executive, including the Restricted Shares awarded pursuant to Section 1.03(d) of this Agreement, 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. 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, "good reason" shall mean:

(A) Any material diminution in Executive's duties, responsibilities, or authority as set forth in this Agreement unless such diminution is a result of or due to the revocation or suspension without reinstatement within 180 days after such revocation or suspension of any license required by law, regulation, or rule governing broker/dealers or investment advisors to be held by the President and/or Chief Executive Officer of the Company; or

(B) Any other material breach of this Agreement by the Company which is not remedied by the Company within a reasonable period of time not to exceed 30 days after the Company's receipt of written notice of the breach from Executive.

To the extent that this Agreement or any agreement referred to herein imposes an obligation on Block or otherwise requires that Block take (or refrain from taking) any action, any material breach of such obligation or requirement by Block shall be treated as a material breach of this Agreement by the Company.

(iii) 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.

(iv) For the purpose of this subsection, "cause" shall mean any one or more of the following grounds:

(A) Executive's gross 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 material harm to the reputation of Block, the Company and/or any Affiliate; or

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(B) 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

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

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

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

(F) Executive's disobedience, insubordination or material failure to discharge Executive's duties; or

(G) The revocation or suspension of any license required by law, regulation, or rule governing broker/dealers or investment advisors to be held by the President and/or Chief Executive Officer of the Company

without reinstatement by the end of 180 days after such revocation or suspension; or

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

(I) 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

(J) 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) Termination Due to Mutual Agreement. The parties may terminate Executive's employment under this Agreement at any time by mutual written agreement.

(c) 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

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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

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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, specifications, documentation, data, and other materials of any nature belonging to Block or any subsidiary of Block and obtained during the course of Executive's employment with 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.

3.02 - Non-Hiring. During the period of Executive's employment hereunder and during the time Executive is receiving payments hereunder, and for a period of two (2) years after the later of Executive's Last Day of Employment or cessation of such payments, 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-subsubsidiary of Block) to become an employee of or otherwise be associated with any other party or with Executive or any company or business with which Executive is or may become associated. 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.

3.03 - Non-Solicitation. During the period of Executive's employment hereunder and during the time Executive is receiving payments hereunder, and for two (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

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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.

(a) During the period of Executive's employment hereunder, Executive shall 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). "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.

(b) During the two (2) years after the later of Executive's Last Day of Employment or the cessation of Executive's receipt of any payments pursuant to this Agreement, Executive shall 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, (i) any firm, corporation, partnership, limited liability company, institution, business, government agency, or entity that at the time of the

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initiation of such engagement, ownership, control, or action by Executive, engages in, or has developed a plan to engage in a business whose core strategy is to integrate the provision of tax and/or accounting products or services with the provision of investment products or services to its clients, or (ii) any subsidiary, division or segment of a firm, corporation, partnership, limited liability company, institution, business, government agency, or entity that at the time of the initiation of such engagement, ownership, control, or action by Executive, engages in, or has developed a plan to engage in a business that integrates the provision of tax and/or accounting products or services with the provision of investment products or services to its clients. 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.

(c) If this Agreement is assigned by the Company to an Affiliate at any time in accordance with Section 4.04, then, during the two (2) years after the later of Executive's Last Day of Employment or the cessation of Executive's receipt of any payments pursuant to this Agreement, Executive shall not engage in any conduct proscribed in subsection 3.05(a) of this Agreement. 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.

(d) No provision in this Section 3.05 shall 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.

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

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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.

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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: 2274 Edgemere Lake Circle, Marietta, Georgia, 30062; and to the Company at: 751 Griswold, Detroit, Michigan 48226, Attn: Secretary, with a copy to H&R Block, Inc., 4400 Main Street, Kansas City, Missouri 64111, Attn: President; 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.

4.11 - Binding Effect. This Agreement is effective only when executed by an officer of the Company and approved in writing by the President and Chief Executive Officer of Block.

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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: 11-05-01

/s/ Brian L. Nygaard

Brian L. Nygaard

ACCEPTED AND AGREED:

H&R Block Financial Advisors, Inc.
a Michigan corporation

By: /s/ Bernard M. Wilson

Name: Bernard M. Wilson

Title: SVP

Dated: 11/30/01

APPROVED:

H&R Block, Inc.
a Missouri corporation

By: /s/ Mark A. Ernst

Mark A. Ernst
President and Chief Executive Officer

Dated: 20 Nov 01

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H&R BLOCK SEVERANCE PLAN
(AS AMENDED SEPTEMBER 19, 2001)

1. PURPOSE. The H&R Block Severance Plan is a welfare benefit plan established by HRB Management, Inc., an indirect subsidiary of H&R Block, Inc., for the benefit of certain subsidiaries of H&R Block, Inc. in order to provide severance compensation and benefits to certain employees of such subsidiaries whose employment is involuntarily terminated under the conditions set forth herein. This document constitutes both the plan document and the summary plan description required by the Employee Retirement Income Security Act of 1974.

2. DEFINITIONS.

(a) "Company" means H&R Block, Inc.

(b) "Employee" means a regular full-time or part-time, active employee of a Participating Employer whose employment with a Participating Employer is not subject to an employment contract that contains a provision that includes severance benefits. This definition expressly excludes seasonal, temporary and inactive employees of a Participating Employer and employees who are customarily employed by a Participating Employer less than 20 hours per week.

(c) "ERISA" means the Employee Retirement Income Security Act of 1974, as amended.

(d) "Hour of Service" means each hour for which an individual was entitled to compensation as a regular full-time or part-time employee from a subsidiary of the Company.

(e) "Line of Business of the Company" with respect to a Participant means any line of business of the Participating Employer by which the Participant was employed as of the Termination Date, as well as any one or more lines of business of any other subsidiary of the Company by which the Participant was employed during the two-year period preceding the Termination Date, provided that, if Participant's employment was, as of the Termination Date or during the two-year period immediately prior to the Termination Date, with HRB Management, Inc. or any successor entity thereto, "Line of Business of the Company" shall mean any lines of business of the Company and all of its subsidiaries.

(f) "Participant" means an Employee who has incurred a Qualifying Termination and has signed a Release that has not been revoked during any revocation period provided under the Release.

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(g) "Participating Employer" means a direct or indirect subsidiary of the Company (i) listed on Schedule A, attached hereto, which may change from time to time to reflect new Participating Employers or withdrawing Participating Employers, and (ii) approved by the Plan Sponsor for participation in the Plan.

(h) "Plan" means the "H&R Block Severance Plan," as stated herein, and as may be amended from time to time.

(i) "Plan Administrator" and "Plan Sponsor" means HRB Management, Inc. The address and telephone number of HRB Management, Inc. is 4400 Main Street, Kansas City, Missouri 64111, (816) 753-6900. The Employer Identification Number assigned to HRB Management, Inc. by the Internal Revenue Service is 43-1632589.

(j) "Qualifying Termination" means the involuntary termination of an Employee, but does not include a termination resulting from:

(i) the termination of an Employee as a result of the elimination of the Employee's position where the Employee was offered another position with a subsidiary of the Company at a comparable salary and benefit level, or where the termination results from a sale of assets or other corporate acquisition;

(ii) the redefinition of an Employee's position to a lower salary rate;

(iii) the termination of an Employee for cause; or

(iv) the non-renewal of employment contracts.

(k) "Release" means that agreement signed by and between an Employee who is eligible to participate in the Plan and the Employee's Participating Employer under which the Employee releases all known and potential claims against the Employee's Participating Employer and all of such employer's parents, subsidiaries, and affiliates.

(l) "Release Date" means, with respect to a Release that includes a revocation period, the date immediately following the expiration date of the revocation period in the Release that has been fully executed by both parties. "Release Date" means, with respect to a Release that does not include a revocation period, the date the Release has been fully executed by both parties.

(m) "Severance Period" means the period of time during which a Participant may receive benefits under this Plan. The Severance Period with respect to a Participant begins on the Termination Date. A Participant's

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Severance Period will be the shorter of (i) 12 months or (ii) a number of months equal to the whole number of Years of Service determined under Section 2(p), unless earlier terminated in accordance with Section 8 of the Plan.

(n) "Termination Date" means the date the Employee severs employment with a Participating Employer.

(o) "Monthly Salary" means -

(i) with respect to an Employee paid on a salary basis, the Employee's current annual salary divided by 12; and

(ii) with respect to an Employee paid on an hourly basis, the Employee's current hourly rate times the number of hours he or she is regularly scheduled to work per week multiplied by 52 and then divided by 12.

(p) "Year of Service" means each period of 12 consecutive months ending on the Employee's employment anniversary date during which the Employee had at least 1,000 Hours of Service. In determining a Participant's Years of Service, the Participant will be credited with a partial Year of Service for his or her final period of employment commencing on his or her most recent employment anniversary date equal to a fraction calculated in accordance with the following formula:

Number of days since most recent employment anniversary date

Despite an Employee's Years of Service calculated in accordance with the above, an Employee whose pay grade at his or her Participating Employer fits in the following categories at the time of the Qualifying Termination will be credited with no less than the specified Minimum Years of Service and no more than the specified Maximum Years of Service listed in the following table as applicable to such pay grade:

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PAY GRADE -----	MINIMUM YEARS OF SERVICE -----	MAXIMUM YEARS OF SERVICE -----
81-89 and 231-235	6	18
65-80, 109-110, and 218-230	3	18
57-64, 105-108, and 210-217	1	18
48-56, 100-102, and 200-209	1	18

Notwithstanding the above, if an Employee has received credit for Years of Service under this Plan or under any previous plan, program, or agreement for the purpose of receiving severance benefits before a Qualifying Termination, such Years of Service will be disregarded when calculating Years of Service for such Qualifying Termination under the Plan; provided, however, that if such severance benefits were terminated prior to completion because the Employee was rehired by any subsidiary of the Company then the Employee will be re-credited with full Years of Service for which severance benefits were not paid in full or in part because of such termination.

3. ELIGIBILITY AND PARTICIPATION. All Employees who incur a Qualifying Termination and sign a Release are eligible to participate in the Plan. An eligible Employee will become a Participant in the Plan as of the Termination Date.

4. SEVERANCE COMPENSATION.

(a) Amount. Subject to Section 8, each Participant will receive during the Severance Period from the applicable Participating Employer aggregate severance compensation equal to:

- (i) the Participant's Monthly Salary multiplied by the Participant's Years of Service; plus
- (ii) one-twelfth of the Participant's target payout under the Short-Term Incentive Program of the Participating Employer in effect at the time of his or her Termination Date multiplied by the Participant's Years of Service; plus
- (iii) an amount to be determined by the Participating Employer at its sole discretion, which amount may be zero.

(b) Timing of Payments. Except as stated in Section 4(c), and subject to Section 8,

- (i) the sum of any amounts determined under Sections 4(a)(i) and 4(a)(ii) of the Plan will be paid in semi-monthly or bi-weekly installments (the timing and amount of each installment as

determined by the Participating Employer) during the Severance Period beginning after the later of the Termination Date or the Release Date; and

(ii) any amounts determined under Section 4(a)(iii) of the Plan will be paid in one lump sum within 15 days after the later of the Termination Date or the Release Date, unless otherwise agreed in writing by the Participating Employer and Participant or otherwise required by law.

(c) Death. In the event of the Participant's death prior to receiving all payments due under this Section 4, any unpaid severance compensation will be paid (i) in the same manner as are death benefits under the Participant's basic life insurance coverage provided by the Participant's Participating Employer, and (ii) in accordance with the Participant's beneficiary designation under such coverage. If no such coverage exists, or if no beneficiary designation exists under such coverage as of the date of death of the Participant, the severance compensation will be paid to the Participant's estate in one-lump sum.

5. HEALTH AND WELFARE BENEFITS.

(a) Benefits. In addition to the severance compensation provided pursuant to Section 4 of the Plan, a Participant may continue to participate in the following health and welfare benefits provided by his or her Participating Employer during the Severance Period on the same basis as employees of the Participating Employer:

- (i) medical;
- (ii) dental;
- (iii) vision;
- (iv) employee assistance;
- (v) medical expense reimbursement and dependent care expense reimbursement benefits provided under a cafeteria plan;
- (vi) life insurance (basic and supplemental); and
- (vii) accidental death and dismemberment insurance (basic and supplemental).

For the purposes of any of the above-described benefits provided under a Participating Employer's cafeteria plan, a Qualifying Termination constitutes

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a "change in status" or "life event."

(b) Payment and Expiration. Payment of the Participant's portion of contribution or premiums for such selected benefits will be withheld from any severance compensation payments paid to the Participant under this Plan. The Participating Employer's partial subsidization of such coverages will remain in effect until the earlier of:

- (i) the expiration or earlier termination of the Employee's Severance Period, after which time the Participant may be eligible to elect to continue coverage of those benefits listed above that are provided under group health plans in accordance with his or her rights under Section 4980B of the Internal Revenue Code; or
- (ii) the Participant's attainment of or eligibility to attain health and welfare benefits through another employer after which time the Participant may be eligible to elect to continue coverage of those benefits listed above that are provided under group health plans in accordance with his or

her rights under Section 4980B of the Internal Revenue Code.

6. STOCK OPTIONS.

(a) Accelerated Vesting. Any portion of any outstanding incentive stock options and nonqualified stock options that would have vested during the 18-month period following the Termination Date had the Participant remained an employee with the Participating Employer during such 18-month period will vest as of the Termination Date. This Section 6(a) applies only to options (i) granted to the Participant under the Company's 1993 Long-Term Executive Compensation Plan, or any successor plan to its 1993 Long-Term Executive Compensation Plan, not less than 6 months prior to his or her Termination Date and (ii) outstanding at the close of business on such Termination Date. The determination of accelerated vesting under this Section 6(a) shall be made as of the Termination Date and shall be based solely on any time-specific vesting schedule included in the applicable stock option agreement without regard to any accelerated vesting provision not related to the Plan in such agreement.

(b) Post-Termination Exercise Period. Subject to the expiration dates and other terms of the applicable stock option agreements, the Participant may elect to have the right to exercise any outstanding incentive stock options and nonqualified stock options granted prior to the Termination Date to the Participant under the Company's 1984 Long-Term Executive Compensation Plan, its 1993 Long-Term Executive Compensation Plan, or any successor plan to its 1993 Long-Term Executive Compensation Plan that are vested as of the Termination Date (or, if later, the Release Date), whether due to the

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operation of Section 6(a), above, or otherwise, at any time during the Severance Period and, except in the event that the Severance Period terminates pursuant to Section 8(a), for a period up to 3 months after the end of the Severance Period (notwithstanding Section 8). Any such election shall apply to all outstanding incentive stock options and nonqualified stock options, will be irrevocable and must be made in writing and delivered to the Plan Administrator on or before the later of the Termination Date or Release Date. If the Participant fails to make an election, the Participant's right to exercise such options will expire 3 months after the Termination Date.

(c) Stock Option Agreement Amendment. The operation of Sections 6(a) and 6(b), above, are subject to the Participant's execution of an amendment to any affected stock option agreements.

7. OUTPLACEMENT SERVICES. In addition to the benefits described above, career transition counseling or outplacement services may be provided upon the Participant's Qualifying Termination. Such outplacement service will be provided at the Participating Employer's sole discretion. Outplacement services are designed to assist employees in their search for new employment and to facilitate a smooth transition between employment with the Participating Employer and employment with another employer. Any outplacement services provided under this Plan will be provided by an outplacement service chosen by the Participating Employer. The Participant is not entitled to any monetary payment in lieu of outplacement services.

8. TERMINATION OF BENEFITS. Any right of a Participant to severance compensation and benefits under the Plan, and all obligations of his or her Participating Employer to pay any unpaid severance compensation or provide benefits under the Plan will terminate as of the day:

(a) The Participant has engaged in any conduct described in Sections 8(a)(i), 8(a)(ii), 8(a)(iii) or 8(a)(iv), below, as the same may be limited pursuant to Section 8(a)(vi).

(i) During the Severance Period, the Participant's engagement in, ownership of, or control of any interest in (except as a passive investor in less than one percent of the outstanding securities of publicly held companies), or acting as an officer, director or employee of, or consultant, advisor or lender to, any firm, corporation, partnership, limited

liability company, institution, business, government agency, or entity that engages in any line of business that is competitive with any Line of Business of the Company, provided that this Section 8(a)(i) shall not apply to the Participant if the Participant's primary place of employment by a subsidiary of the Company as of the Termination Date is in either the State of California or the State of North Dakota.

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(ii) During the Severance Period, the Participant employs or solicits for employment by any employer other than a subsidiary of the Company any employee of any subsidiary of the Company, or recommends any such employee for employment to any employer (other than a subsidiary of the Company) at which the Participant is or intends to be (A) employed, (B) a member of the Board of Directors, (C) a partner, or (D) providing consulting services.

(iii) During the Severance Period, the Participant directly or indirectly solicits or enters into any arrangement with any person or entity which is, at the time of the solicitation, a significant customer of a subsidiary of the Company for the purpose of engaging in any business transaction of the nature performed by such subsidiary, or contemplated to be performed by such subsidiary, for such customer, provided that this Section 8(a)(iii) shall only apply to customers for whom the Participant personally provided services while employed by a subsidiary of the Company or customers about whom or which the Participant acquired material information while employed by a subsidiary of the Company.

(iv) During the Severance Period, the Participant misappropriates or improperly uses or discloses confidential information of the Company and/or its subsidiaries.

(v) If the Participant engaged in any of the conduct described in Sections 8(a)(i), 8(a)(ii), 8(a)(iii) or 8(a)(iv) during or after Participant's term of employment with a Participating Employer, but prior to the commencement of the Severance Period, and such engagement becomes known to the Participating Employer during the Severance Period, such conduct shall be deemed, for purposes of Sections 8(a)(i), 8(a)(ii), 8(a)(iii) or 8(a)(iv) to have occurred during the Severance Period.

(vi) If the Participant is a party to an employment contract with a Participating Employer that contains a covenant or covenants relating to the Participant's engagement in conduct that is the same as or substantially similar to the conduct described in any of Sections 8(a)(i), 8(a)(ii), 8(a)(iii) or 8(a)(iv), and any specific conduct regulated in such covenant or covenants in such employment contract is more limited in scope geographically or otherwise than the corresponding specific conduct described in any of such Sections 8(a)(i), 8(a)(ii), 8(a)(iii) or 8(a)(iv), then the corresponding specific conduct addressed in the applicable Section 8(a)(i), 8(a)(ii), 8(a)(iii) or 8(a)(iv) shall be limited to the same extent as such conduct is limited in the employment contract and the Participating Employer's rights and remedy with respect to such conduct under this Section 8 shall apply only to such conduct as so limited.

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(b) The Participant is rehired by his or her Participating Employer or hired by any other subsidiary of the Company in any position other than a position classified as seasonal by such employer.

9. AMENDMENT AND TERMINATION. The Plan Sponsor reserves the right to amend the Plan or to terminate the Plan and all benefits hereunder in their entirety at any time.

10. ADMINISTRATION OF PLAN. The Plan Administrator has the power and discretion to construe the provisions of the Plan and to determine all questions relating to the eligibility of employees of Participating Employers to become Participants in the Plan, and the amount of benefits to which any Participant may be entitled thereunder in accordance with the Plan. Not in limitation, but in amplification of the foregoing and of the authority conferred upon the Plan Administrator, the Plan Sponsor specifically intends that the Plan Administrator have the greatest permissible discretion to construe the terms of the Plan and to determine all questions concerning eligibility, participation and benefits. Any such decision made by the Plan Administrator will be binding on all Employees, Participants, and Beneficiaries, and is intended to be subject to the most deferential standard of judicial review. Such standard of review is not to be affected by any real or alleged conflict of interest on the part of the Plan Administrator. The decision of the Plan Administrator upon all matters within the scope of its authority will be final and binding.

11. CLAIMS PROCEDURES.

(a) FILING A CLAIM FOR BENEFITS. Participants are not required to submit claim forms to initiate payment of benefits under this Plan. To make a claim for benefits, individuals other than Participants who believe they are entitled to receive benefits under this Plan and Participants who believe they have been denied certain benefits under the Plan must write to the Plan Administrator. These individuals and such Participants are hereinafter referred to in this Section 11 as "Claimants." Claimants must notify the Plan Administrator if they will be represented by a duly authorized representative with respect to a claim under the Plan.

(b) INITIAL REVIEW OF CLAIMS. The Plan Administrator will evaluate a claim for benefits under the Plan. The Plan Administrator may solicit additional information from the Claimant if necessary to evaluate the claim. If the Plan Administrator denies all or any portion of the claim, the Claimant will receive, within 90 days after the receipt of the written claim, a written notice setting forth:

(i) the specific reason for the denial;

(ii) specific references to pertinent Plan provisions on which the

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Plan Administrator based its denial;

(iii) a description of any additional material and information needed for the Claimant to perfect his or her claim and an explanation of why the material or information is needed; and

(iv) that any appeal the Claimant wishes to make of the adverse determination must be in writing to the Plan Administrator within 60 days after receipt of the notice of denial of benefits. The notice must advise the Claimant that his or her failure to appeal the action to the Plan Administrator in writing within the 60-day period will render the Plan Administrator's determination final, binding and conclusive. The notice must further advise the Claimant of his or her right to bring a civil action under Section 502(a) of ERISA following the exhaustion of the claims procedures described herein.

(c) APPEAL OF DENIED CLAIM AND FINAL DECISION. If the Claimant should appeal to the Plan Administrator, the Claimant, or his or her duly authorized representative, must submit, in writing, whatever issues and comments the Claimant or his or her duly authorized representative feels are pertinent. The Claimant, or his or her duly authorized representative, may review and request pertinent Plan documents. The Plan Administrator will reexamine all facts related to the appeal and make a final determination as to whether the denial of benefits is justified under the circumstances. The Plan Administrator will advise the Claimant in writing of its decision within 60 days of the Claimant's written request for review, unless special circumstances (such as a hearing) require an extension of time, in which case the

Plan Administrator will make a decision as soon as possible, but no later than 120 days after its receipt of a request for review.

12. PLAN FINANCING. The benefits to be provided under the Plan will be paid by the applicable Participating Employer, as incurred, out of the general assets of such Participating Employer.

13. GENERAL INFORMATION. The Plan's records are maintained on a calendar year basis. The Plan Number is 509. The Plan is self-administered and is considered a severance plan.

14. GOVERNING LAW. The Plan is established in the State of Missouri. To the extent federal law does not apply, any questions arising under the Plan will be determined under the laws of the State of Missouri.

15. ENFORCEABILITY; SEVERABILITY. If a court of competent jurisdiction determines that any provision of the Plan is not enforceable, then such provision shall be enforceable to the maximum extent possible under applicable law, as determined by such court. The invalidity or unenforceability of any provision of the

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Plan, as determined by a court of competent jurisdiction, will not affect the validity or enforceability of any other provision of the Plan and all other provisions will remain in full force and effect.

16. WITHHOLDING OF TAXES. The applicable Participating Employer may withhold from any benefit payable under the Plan all federal, state, city or other taxes as may be required pursuant to any law, governmental regulation or ruling. The Participant shall pay upon demand by the Company or the Participating Employer any taxes required to be withheld or collected by the Company or the Participating Employer upon the exercise by the Participant of a nonqualified stock option granted under the Company's 1984 Long-Term Executive Compensation Plan or its 1993 Long-Term Executive Compensation Plan. If the Participant fails to pay any such taxes associated with such exercise upon demand, the Participating Employer shall have the right, but not the obligation, to offset such taxes against any unpaid severance compensation under this Plan.

17. NOT AN EMPLOYMENT AGREEMENT. Nothing in the Plan gives an Employee any rights (or imposes any obligations) to continued employment by his or her Participating Employer or other subsidiary of the Company, nor does it give such Participating Employer any rights (or impose any obligations) for the continued performance of duties by the Employee for the Participating Employer or any other subsidiary of the Company.

18. NO ASSIGNMENT. The Employee's right to receive payments of severance compensation and benefits under the Plan are not assignable or transferable, whether by pledge, creation of a security interest, or otherwise. In the event of any attempted assignment or transfer contrary to this section, the applicable Participating Employer will have no liability to pay any amount so attempted to be assigned or transferred.

19. SERVICE OF PROCESS. The Secretary of the Plan Administrator is designated as agent for service of legal process. Service of legal process may be made upon the Secretary of the Plan Administrator at:

HRB Management, Inc.
Attn: Secretary
4400 Main Street
Kansas City, Missouri 64111

20. STATEMENT OF ERISA RIGHTS. As a participant in the Plan, you are entitled to certain rights and protections under ERISA, which provides that all Plan Participants are entitled to:

(a) examine without charge, at the Plan Administrator's office, all documents governing the Plan and a copy of the latest annual report (Form 5500 Series) filed by the Plan with the U.S. Department of Labor and

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available at the Public Disclosure Room of the Pension and Welfare Benefit Administration;

(b) obtain, upon written request to the Plan Administrator, copies of documents governing the operation of the Plan, copies of the latest annual report (Form 5500 Series) and an updated summary plan description. The Plan Administrator may make a reasonable charge for the copies; and

(c) receive a summary of the Plan's annual financial report if required to be filed for the year. The Plan Administrator is required by law to furnish each participant with a copy of this summary annual report if an annual report is required to be filed for the year.

In addition to creating rights for Plan Participants, ERISA imposes duties upon the people who are responsible for the operation of the Plan. The people who operate your Plan, called "fiduciaries" of the Plan, have a duty to do so prudently and in the interest of you and other Plan Participants and beneficiaries. No one, including your Participating Employer or any other person, may fire you or otherwise discriminate against you in any way to prevent you from obtaining a welfare benefit or exercising your rights under ERISA.

If your claim for a welfare benefit is denied or ignored, in whole or in part, you have the right to know why this was done, to obtain copies of documents relating to the decision without charge, and to appeal any denial, all within certain time schedules.

Under ERISA, there are steps you can take to enforce the above rights. For instance, if you request a copy of plan documents or the latest annual report from the Plan and do not receive them within 30 days, you may file suit in a Federal court. In such a case, the court may require the Plan Administrator to provide the materials to you and pay you up to \$110 a day until you receive the materials, unless the materials were not sent because of reasons beyond the control of the Plan Administrator. If you have a claim for benefits that is denied or ignored, in whole or in part, you may file suit in a state or Federal court. If it should happen that you are discriminated against for asserting your rights, you may seek assistance from the U. S. Department of Labor, or you may file suit in a Federal court. The court will decide who should pay court costs and legal fees. If you are successful, the court may order the person you have sued to pay these costs and fees. If you lose, the court may order you to pay these costs and fees, for example, if it finds your claim is frivolous.

If you have any questions about the Plan, you should contact the Plan Administrator. If you have questions about this statement or about your rights under ERISA, or if you need assistance in obtaining documents from the Plan Administrator, you should contact the nearest office of the Pension and Welfare Benefits Administration, U.S. Department of Labor, listed in your telephone directory or

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the Division of Technical Assistance and Inquiries, Pension and Welfare Benefits Administration, U.S. Department of Labor, 200 Constitution Avenue N.W., Washington, D.C. 20210. You may also obtain certain publications about your rights and responsibilities under ERISA by calling the publications hotline of the Pension and Welfare Benefits Administration.

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IN WITNESS WHEREOF, HRB Management, Inc. adopts this Severance Plan effective this 23rd day of April, 2001.

HRB MANAGEMENT, INC.

/s/ Mark A. Ernst

Mark A. Ernst
President and Chief Executive Officer

SCHEDULE A
PARTICIPATING EMPLOYERS

Block Financial Corporation

Financial Marketing Services, Inc.

Franchise Partner, Inc.

H&R Block Investments, Inc.

H&R Block Services, Inc. and its U.S.-based direct and indirect subsidiaries

HRB Business Services, Inc.

HRB Management, Inc.

HRB Retail Services, Inc.

Olde Financial Corporation and its U.S.-based direct and indirect subsidiaries,
which subsidiaries include H&R Block Financial Advisors, Inc.

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT ("Agreement") is entered into as of January 28, 2002, by and between HRB Management, a Missouri corporation (the "Company"), and Stephanie R. Otto ("Executive").

ARTICLE ONE

EMPLOYMENT

1.01 - Agreement as to Employment. Effective June 30, 2001 (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 the Senior Vice President, Human Resources of H&R Block, Inc., a Missouri corporation ("Block") and the indirect parent corporation of the Company, subject to the authority and direction of the Board of Directors of Block and the Chief Executive Officer of Block. Subject to the foregoing, Executive will have such authority and responsibility and duties as are normally associated with the position of Senior Vice President, Human Resources. The Company reserves the right to modify, delete, add, or otherwise change Executive's job responsibilities, in its sole discretion, at any time. Executive will perform such other duties 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

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the Company without notice.

1.03 - Compensation. The Company will pay to Executive a gross salary at an annual rate of \$180,000 ("Base Salary"), payable semimonthly or at any other pay periods as the Company may use for its other executive 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.

1.04 - June 30, 2001 Stock Option Grant. As additional consideration for entering into this Agreement, Executive was granted as of June 30, 2001, a stock option under Block's 1993 Long-Term Executive Compensation Plan, as amended (the "1993 Plan") to purchase 14,000 shares of Block's common stock at an option price per share equal to \$64.55, such stock option being conditioned on the entry into this Agreement and otherwise having terms and conditions consistent with the terms and conditions of options granted to other senior executive officers of Block and its subsidiaries.

1.05 - 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.

1.06 - 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.

1.07 - 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.

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

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

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

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

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

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

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

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

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(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); provided, however, (1) the "Severance Period" (as such term is defined in the Severance Plan) will be 18 months, notwithstanding any provision in the Severance Plan to the contrary, and (2) Executive will be credited with no less than 18 "Years of Service" (as such term is defined in the Severance Plan) for the purpose of determining severance compensation under Section 4(a)(i) 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. 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 1.08(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

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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) approval by the shareholders of Block of (I) a reorganization, merger or consolidation of Block, in each case, with respect to which all or substantially all of the individuals and entities who were the respective beneficial owners of the voting securities of Block immediately prior to such reorganization, merger or consolidation do not, following such reorganization, merger or consolidation, beneficially own, directly or indirectly, more than 50% of the then outstanding voting securities entitled to vote generally in the election of directors of the corporation resulting from such reorganization, merger or consolidation, (II) a complete liquidation or dissolution of Block, voluntary or involuntary, or (III) the sale or other disposition of all or substantially all of the assets 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 executes an agreement with the Company under which Executive releases all known and potential claims against Block, the Company, and Affiliates. Such compensation and benefits will be Executive's election (the "Severance Election") of the same level of severance compensation and benefits as would be provided under the Severance Plan as such plan exists either (A) on the date of this Agreement or (B) Executive's Last Day of Employment; provided, however, (1) the "Severance Period" (as such term is defined in the Severance Plan) will be 18 months, notwithstanding any provision in the Severance Plan to the contrary, and (2) Executive will be credited with no less than 18 "Years of Service" (as such term is defined in the Severance Plan) for the purpose of determining severance compensation under Section 4(a) (i) 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. 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

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Election. Severance compensation and benefits provided under this Section 1.08(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 1.08, (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

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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-subsubsidiary of Block) to become an employee of or otherwise be associated with any other party or with Executive or any

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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

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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

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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 1.05(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: 4400 Main Street, Kansas City, Missouri 64111; and to the Company at: 4400 Main Street, Kansas City, Missouri 64111, Attn: President, with a copy to H&R Block, Inc., 4400 Main Street, Kansas City, Missouri 64111, Attn: Corporate Secretary; or to such other address and/or person designated by either party in writing to the other party. Any notice given by mail will be deemed given as of the date it is so mailed and postmarked or received by a nationally recognized overnight courier for delivery.

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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: 1/28/2002

/s/ Stephanie R. Otto

Stephanie R. Otto

Accepted and Agreed:

HRB MANAGEMENT, INC.
a Missouri corporation

By: /s/ Mark A. Ernst

Mark Ernst
President and Chief Executive Officer

Dated: 1 Feb 02

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1. PURPOSE. The H&R Block Severance Plan is a welfare benefit plan established by HRB Management, Inc., an indirect subsidiary of H&R Block, Inc., for the benefit of certain subsidiaries of H&R Block, Inc. in order to provide severance compensation and benefits to certain employees of such subsidiaries whose employment is involuntarily terminated under the conditions set forth herein. This document constitutes both the plan document and the summary plan description required by the Employee Retirement Income Security Act of 1974.

2. DEFINITIONS.

(a) "Company" means H&R Block, Inc.

(b) "Employee" means a regular full-time or part-time, active employee of a Participating Employer whose employment with a Participating Employer is not subject to an employment contract that contains a provision that includes severance benefits. This definition expressly excludes seasonal, temporary and inactive employees of a Participating Employer and employees who are customarily employed by a Participating Employer less than 20 hours per week.

(c) "ERISA" means the Employee Retirement Income Security Act of 1974, as amended.

(d) "Hour of Service" means each hour for which an individual was entitled to compensation as a regular full-time or part-time employee from a subsidiary of the Company.

(e) "Line of Business of the Company" with respect to a Participant means any line of business of the Participating Employer by which the Participant was employed as of the Termination Date, as well as any one or more lines of business of any other subsidiary of the Company by which the Participant was employed during the two-year period preceding the Termination Date, provided that, if Participant's employment was, as of the Termination Date or during the two-year period immediately prior to the Termination Date, with HRB Management, Inc. or any successor entity thereto, "Line of Business of the Company" shall mean any lines of business of the Company and all of its subsidiaries.

(f) "Participant" means an Employee who has incurred a Qualifying Termination and has signed a Release that has not been revoked during any

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revocation period provided under the Release.

(g) "Participating Employer" means a direct or indirect subsidiary of the Company (i) listed on Schedule A, attached hereto, which may change from time to time to reflect new Participating Employers or withdrawing Participating Employers, and (ii) approved by the Plan Sponsor for participation in the Plan.

(h) "Plan" means the "H&R Block Severance Plan," as stated herein, and as may be amended from time to time.

(i) "Plan Administrator" and "Plan Sponsor" means HRB Management, Inc. The address and telephone number of HRB Management, Inc. is 4400 Main Street, Kansas City, Missouri 64111, (816) 753-6900. The Employer Identification Number assigned to HRB Management, Inc. by the Internal Revenue Service is 43-1632589.

(j) "Qualifying Termination" means the involuntary termination of an Employee, but does not include a termination resulting from:

(i) the termination of an Employee as a result of the elimination of the Employee's position where the Employee was offered another position with a subsidiary of the Company at a comparable salary and benefit level, or where the termination results from a sale of assets or other corporate acquisition;

(ii) the redefinition of an Employee's position to a lower salary rate;

(iii) the termination of an Employee for cause; or

(iv) the non-renewal of employment contracts.

(k) "Release" means that agreement signed by and between an Employee who is eligible to participate in the Plan and the Employee's Participating Employer under which the Employee releases all known and potential claims against the Employee's Participating Employer and all of such employer's parents, subsidiaries, and affiliates.

(l) "Release Date" means, with respect to a Release that includes a revocation period, the date immediately following the expiration date of the revocation period in the Release that has been fully executed by both parties. "Release Date" means, with respect to a Release that does not include a revocation period, the date the Release has been fully executed by both parties.

(m) "Severance Period" means the period of time during which a Participant may receive benefits under this Plan. The Severance Period with

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respect to a Participant begins on the Termination Date. A Participant's Severance Period will be the shorter of (i) 12 months or (ii) a number of months equal to the whole number of Years of Service determined under Section 2(p), unless earlier terminated in accordance with Section 8 of the Plan.

(n) "Termination Date" means the date the Employee severs employment with a Participating Employer.

(o) "Monthly Salary" means -

(i) with respect to an Employee paid on a salary basis, the Employee's current annual salary divided by 12; and

(ii) with respect to an Employee paid on an hourly basis, the Employee's current hourly rate times the number of hours he or she is regularly scheduled to work per week multiplied by 52 and then divided by 12.

(p) "Year of Service" means each period of 12 consecutive months ending on the Employee's employment anniversary date during which the Employee had at least 1,000 Hours of Service. In determining a Participant's Years of Service, the Participant will be credited with a partial Year of Service for his or her final period of employment commencing on his or her most recent employment anniversary date equal to a fraction calculated in accordance with the following formula:

Number of days since most recent employment anniversary date

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Despite an Employee's Years of Service calculated in accordance with the above, an Employee whose pay grade at his or her Participating Employer fits in the following categories at the time of the Qualifying Termination will be credited with no less than the specified Minimum Years of Service and no more than the specified Maximum Years of Service listed in the following table as applicable to such pay grade:

PAY GRADE -----	MINIMUM YEARS OF SERVICE -----	MAXIMUM YEARS OF SERVICE -----
81-89 and 231-235	6	18
65-80, 109-110, and 218-230	3	18

57-64, 105-108, and 210-217	1	18
48-56, 100-102, and 200-209	1	18

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3. ELIGIBILITY AND PARTICIPATION. All Employees who incur a Qualifying Termination and sign a Release are eligible to participate in the Plan. An eligible Employee will become a Participant in the Plan as of the Termination Date.

4. SEVERANCE COMPENSATION.

(a) Amount. Subject to Section 8, each Participant will receive during the Severance Period from the applicable Participating Employer aggregate severance compensation equal to:

(i) the Participant's Monthly Salary multiplied by the Participant's Years of Service; plus

(ii) one-twelfth of the Participant's target payout under the Short-Term Incentive Program of the Participating Employer in effect at the time of his or her Termination Date multiplied by the Participant's Years of Service; plus

(iii) an amount to be determined by the Participating Employer at its sole discretion, which amount may be zero.

(b) Timing of Payments. Except as stated in Section 4(c), and subject to Section 8,

(i) the sum of any amounts determined under Sections 4(a)(i) and 4(a)(ii) of the Plan will be paid in semi-monthly or bi-weekly installments (the timing and amount of each installment as determined by the Participating Employer) during the Severance Period beginning after the later of the Termination Date or the Release Date; and

(ii) any amounts determined under Section 4(a)(iii) of the Plan will be paid in one lump sum within 15 days after the later of the Termination Date or the Release Date, unless otherwise agreed in writing by the Participating Employer and Participant or otherwise required by law.

(c) Death. In the event of the Participant's death prior to receiving all payments due under this Section 4, any unpaid severance compensation will be paid (i) in the same manner as are death benefits under the Participant's basic life insurance coverage provided by the Participant's Participating Employer, and (ii) in accordance with the Participant's beneficiary designation under such coverage. If no such coverage exists, or if no beneficiary designation exists under such coverage as of the date of death of the Participant, the severance compensation will be paid to the Participant's estate in one-lump sum.

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5. HEALTH AND WELFARE BENEFITS.

(a) Benefits. In addition to the severance compensation provided pursuant to Section 4 of the Plan, a Participant may continue to participate in the following health and welfare benefits provided by his or her Participating Employer during the Severance Period on the same basis as employees of the Participating Employer:

(i) medical;

(ii) dental;

- (iii) vision;
- (iv) employee assistance;
- (v) medical expense reimbursement and dependent care expense reimbursement benefits provided under a cafeteria plan;
- (vi) life insurance (basic and supplemental); and
- (vii) accidental death and dismemberment insurance (basic and supplemental).

For the purposes of any of the above-described benefits provided under a Participating Employer's cafeteria plan, a Qualifying Termination constitutes a "change in status" or "life event."

(b) Payment and Expiration. Payment of the Participant's portion of contribution or premiums for such selected benefits will be withheld from any severance compensation payments paid to the Participant under this Plan. The Participating Employer's partial subsidization of such coverages will remain in effect until the earlier of:

- (i) the expiration or earlier termination of the Employee's Severance Period, after which time the Participant may be eligible to elect to continue coverage of those benefits listed above that are provided under group health plans in accordance with his or her rights under Section 4980B of the Internal Revenue Code; or
- (ii) the Participant's attainment of or eligibility to attain health and welfare benefits through another employer after which time the Participant may be eligible to elect to continue coverage of those benefits listed above that are provided under group health plans in accordance with his or her rights under Section 4980B of the Internal

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Revenue Code.

6. STOCK OPTIONS.

(a) Accelerated Vesting. Any portion of any outstanding incentive stock options and nonqualified stock options that would have vested during the 18-month period following the Termination Date had the Participant remained an employee with the Participating Employer during such 18-month period will vest as of the Termination Date. This Section 6(a) applies only to options (i) granted to the Participant under the Company's 1993 Long-Term Executive Compensation Plan, or any successor plan to its 1993 Long-Term Executive Compensation Plan, not less than 6 months prior to his or her Termination Date and (ii) outstanding at the close of business on such Termination Date. The determination of accelerated vesting under this Section 6(a) shall be made as of the Termination Date and shall be based solely on any time-specific vesting schedule included in the applicable stock option agreement without regard to any accelerated vesting provision not related to the Plan in such agreement.

(b) Post-Termination Exercise Period. Subject to the expiration dates and other terms of the applicable stock option agreements, the Participant may elect to have the right to exercise any outstanding incentive stock options and nonqualified stock options granted prior to the Termination Date to the Participant under the Company's 1984 Long-Term Executive Compensation Plan, its 1993 Long-Term Executive Compensation Plan, or any successor plan to its 1993 Long-Term Executive Compensation Plan that are vested as of the Termination Date (or, if later, the Release Date), whether due to the operation of Section 6(a), above, or otherwise, at any time during the Severance Period and, except in the event that the Severance Period terminates pursuant to Section 8(a), for a period up to 3 months after the end of the Severance Period (notwithstanding Section 8). Any such election shall apply to all outstanding incentive stock options and nonqualified stock options, will be irrevocable and must be made in writing and

delivered to the Plan Administrator on or before the later of the Termination Date or Release Date. If the Participant fails to make an election, the Participant's right to exercise such options will expire 3 months after the Termination Date.

(c) Stock Option Agreement Amendment. The operation of Sections 6(a) and 6(b), above, are subject to the Participant's execution of an amendment to any affected stock option agreements.

7. OUTPLACEMENT SERVICES. In addition to the benefits described above, career transition counseling or outplacement services may be provided upon the Participant's Qualifying Termination. Such outplacement service will be provided at the Participating Employer's sole discretion. Outplacement services are designed to assist employees in their search for new employment and to facilitate a smooth

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transition between employment with the Participating Employer and employment with another employer. Any outplacement services provided under this Plan will be provided by an outplacement service chosen by the Participating Employer. The Participant is not entitled to any monetary payment in lieu of outplacement services.

8. TERMINATION OF BENEFITS. Any right of a Participant to severance compensation and benefits under the Plan, and all obligations of his or her Participating Employer to pay any unpaid severance compensation or provide benefits under the Plan will terminate as of the day:

(a) The Participant has engaged in any conduct described in Sections 8(a)(i), 8(a)(ii), 8(a)(iii) or 8(a)(iv), below, as the same may be limited pursuant to Section 8(a)(vi).

(i) During the Severance Period, the Participant's engagement in, ownership of, or control of any interest in (except as a passive investor in less than one percent of the outstanding securities of publicly held companies), or acting as an officer, director or employee of, or consultant, advisor or lender to, any firm, corporation, partnership, limited liability company, institution, business, government agency, or entity that engages in any line of business that is competitive with any Line of Business of the Company, provided that this Section 8(a)(i) shall not apply to the Participant if the Participant's primary place of employment by a subsidiary of the Company as of the Termination Date is in either the State of California or the State of North Dakota.

(ii) During the Severance Period, the Participant employs or solicits for employment by any employer other than a subsidiary of the Company any employee of any subsidiary of the Company, or recommends any such employee for employment to any employer (other than a subsidiary of the Company) at which the Participant is or intends to be (A) employed, (B) a member of the Board of Directors, (C) a partner, or (D) providing consulting services.

(iii) During the Severance Period, the Participant directly or indirectly solicits or enters into any arrangement with any person or entity which is, at the time of the solicitation, a significant customer of a subsidiary of the Company for the purpose of engaging in any business transaction of the nature performed by such subsidiary, or contemplated to be performed by such subsidiary, for such customer, provided that this Section 8(a)(iii) shall only apply to customers for whom the Participant personally provided services while employed by a subsidiary of the Company or customers about whom or which the Participant acquired material information while employed by a subsidiary of the Company.

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(iv) During the Severance Period, the Participant misappropriates or improperly uses or discloses confidential information of the Company and/or its subsidiaries.

(v) If the Participant engaged in any of the conduct described in Sections 8(a)(i), 8(a)(ii), 8(a)(iii) or 8(a)(iv) during or after Participant's term of employment with a Participating Employer, but prior to the commencement of the Severance Period, and such engagement becomes known to the Participating Employer during the Severance Period, such conduct shall be deemed, for purposes of Sections 8(a)(i), 8(a)(ii), 8(a)(iii) or 8(a)(iv) to have occurred during the Severance Period.

(vi) If the Participant is a party to an employment contract with a Participating Employer that contains a covenant or covenants relating to the Participant's engagement in conduct that is the same as or substantially similar to the conduct described in any of Sections 8(a)(i), 8(a)(ii), 8(a)(iii) or 8(a)(iv), and any specific conduct regulated in such covenant or covenants in such employment contract is more limited in scope geographically or otherwise than the corresponding specific conduct described in any of such Sections 8(a)(i), 8(a)(ii), 8(a)(iii) or 8(a)(iv), then the corresponding specific conduct addressed in the applicable Section 8(a)(i), 8(a)(ii), 8(a)(iii) or 8(a)(iv) shall be limited to the same extent as such conduct is limited in the employment contract and the Participating Employer's rights and remedy with respect to such conduct under this Section 8 shall apply only to such conduct as so limited.

(b) The Participant is rehired by his or her Participating Employer or hired by any other subsidiary of the Company.

9. AMENDMENT AND TERMINATION. The Plan Sponsor reserves the right to amend the Plan or to terminate the Plan and all benefits hereunder in their entirety at any time.

10. ADMINISTRATION OF PLAN. The Plan Administrator has the power and discretion to construe the provisions of the Plan and to determine all questions relating to the eligibility of employees of Participating Employers to become Participants in the Plan, and the amount of benefits to which any Participant may be entitled thereunder in accordance with the Plan. Not in limitation, but in amplification of the foregoing and of the authority conferred upon the Plan Administrator, the Plan Sponsor specifically intends that the Plan Administrator have the greatest permissible discretion to construe the terms of the Plan and to determine all questions concerning eligibility, participation and benefits. Any such decision made by the Plan Administrator will be binding on all Employees, Participants, and Beneficiaries, and is intended to be subject to the most deferential standard of judicial review. Such standard of review is not to be affected by any

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real or alleged conflict of interest on the part of the Plan Administrator. The decision of the Plan Administrator upon all matters within the scope of its authority will be final and binding.

11. CLAIMS PROCEDURES.

(a) FILING A CLAIM FOR BENEFITS. Participants are not required to submit claim forms to initiate payment of benefits under this Plan. To make a claim for benefits, individuals other than Participants who believe they are entitled to receive benefits under this Plan and Participants who believe they have been denied certain benefits under the Plan must write to the Plan Administrator. These individuals and such Participants are hereinafter referred to in this Section 11 as "Claimants." Claimants must notify the Plan Administrator if they will be represented by a duly authorized representative with respect to a claim under the Plan.

(b) INITIAL REVIEW OF CLAIMS. The Plan Administrator will evaluate a claim for benefits under the Plan. The Plan Administrator may solicit additional information from the Claimant if necessary to evaluate the

claim. If the Plan Administrator denies all or any portion of the claim, the Claimant will receive, within 90 days after the receipt of the written claim, a written notice setting forth:

- (i) the specific reason for the denial;
- (ii) specific references to pertinent Plan provisions on which the Plan Administrator based its denial;
- (iii) a description of any additional material and information needed for the Claimant to perfect his or her claim and an explanation of why the material or information is needed; and
- (iv) that any appeal the Claimant wishes to make of the adverse determination must be in writing to the Plan Administrator within 60 days after receipt of the notice of denial of benefits. The notice must advise the Claimant that his or her failure to appeal the action to the Plan Administrator in writing within the 60-day period will render the Plan Administrator's determination final, binding and conclusive. The notice must further advise the Claimant of his or her right to bring a civil action under Section 502(a) of ERISA following the exhaustion of the claims procedures described herein.

(c) APPEAL OF DENIED CLAIM AND FINAL DECISION. If the Claimant should appeal to the Plan Administrator, the Claimant, or his or her duly authorized representative, must submit, in writing, whatever issues and comments the Claimant or his or her duly authorized representative feels are

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pertinent. The Claimant, or his or her duly authorized representative, may review and request pertinent Plan documents. The Plan Administrator will reexamine all facts related to the appeal and make a final determination as to whether the denial of benefits is justified under the circumstances. The Plan Administrator will advise the Claimant in writing of its decision within 60 days of the Claimant's written request for review, unless special circumstances (such as a hearing) require an extension of time, in which case the Plan Administrator will make a decision as soon as possible, but no later than 120 days after its receipt of a request for review.

12. PLAN FINANCING. The benefits to be provided under the Plan will be paid by the applicable Participating Employer, as incurred, out of the general assets of such Participating Employer.

13. GENERAL INFORMATION. The Plan's records are maintained on a calendar year basis. The Plan Number is 509. The Plan is self-administered and is considered a severance plan.

14. GOVERNING LAW. The Plan is established in the State of Missouri. To the extent federal law does not apply, any questions arising under the Plan will be determined under the laws of the State of Missouri.

15. ENFORCEABILITY; SEVERABILITY. If a court of competent jurisdiction determines that any provision of the Plan is not enforceable, then such provision shall be enforceable to the maximum extent possible under applicable law, as determined by such court. The invalidity or unenforceability of any provision of the Plan, as determined by a court of competent jurisdiction, will not affect the validity or enforceability of any other provision of the Plan and all other provisions will remain in full force and effect.

16. WITHHOLDING OF TAXES. The applicable Participating Employer may withhold from any benefit payable under the Plan all federal, state, city or other taxes as may be required pursuant to any law, governmental regulation or ruling. The Participant shall pay upon demand by the Company or the Participating Employer any taxes required to be withheld or collected by the Company or the Participating Employer upon the exercise by the Participant of a nonqualified stock option granted under the Company's 1984 Long-Term Executive Compensation Plan or its 1993 Long-Term Executive Compensation Plan. If the Participant fails to pay any such taxes associated with such exercise upon demand, the

Participating Employer shall have the right, but not the obligation, to offset such taxes against any unpaid severance compensation under this Plan.

17. NOT AN EMPLOYMENT AGREEMENT. Nothing in the Plan gives an Employee any rights (or imposes any obligations) to continued employment by his or her Participating Employer or other subsidiary of the Company, nor does it give such Participating Employer any rights (or impose any obligations) for the continued

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performance of duties by the Employee for the Participating Employer or any other subsidiary of the Company.

18. NO ASSIGNMENT. The Employee's right to receive payments of severance compensation and benefits under the Plan are not assignable or transferable, whether by pledge, creation of a security interest, or otherwise. In the event of any attempted assignment or transfer contrary to this section, the applicable Participating Employer will have no liability to pay any amount so attempted to be assigned or transferred.

19. SERVICE OF PROCESS. The Secretary of the Plan Administrator is designated as agent for service of legal process. Service of legal process may be made upon the Secretary of the Plan Administrator at:

HRB Management, Inc.
Attn: Secretary
4400 Main Street
Kansas City, Missouri 64111

20. STATEMENT OF ERISA RIGHTS. As a participant in the Plan, you are entitled to certain rights and protections under ERISA, which provides that all Plan Participants are entitled to:

(a) examine without charge, at the Plan Administrator's office, all documents governing the Plan and a copy of the latest annual report (Form 5500 Series) filed by the Plan with the U.S. Department of Labor and available at the Public Disclosure Room of the Pension and Welfare Benefit Administration;

(b) obtain, upon written request to the Plan Administrator, copies of documents governing the operation of the Plan, copies of the latest annual report (Form 5500 Series) and an updated summary plan description. The Plan Administrator may make a reasonable charge for the copies; and

(c) receive a summary of the Plan's annual financial report if required to be filed for the year. The Plan Administrator is required by law to furnish each participant with a copy of this summary annual report if an annual report is required to be filed for the year.

In addition to creating rights for Plan Participants, ERISA imposes duties upon the people who are responsible for the operation of the Plan. The people who operate your Plan, called "fiduciaries" of the Plan, have a duty to do so prudently and in the interest of you and other Plan Participants and beneficiaries. No one, including your Participating Employer or any other person, may fire you or otherwise discriminate against you in any way to prevent you from obtaining a welfare benefit or exercising your rights under ERISA.

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If your claim for a welfare benefit is denied or ignored, in whole or in part, you have the right to know why this was done, to obtain copies of documents relating to the decision without charge, and to appeal any denial, all within certain time schedules.

Under ERISA, there are steps you can take to enforce the above rights. For instance, if you request a copy of plan documents or the latest annual report from the Plan and do not receive them within 30 days, you may file suit in a Federal court. In such a case, the court may require the Plan Administrator to provide the materials to you and pay you up to \$110 a day until you receive the materials, unless the materials were not sent because of reasons beyond the

control of the Plan Administrator. If you have a claim for benefits that is denied or ignored, in whole or in part, you may file suit in a state or Federal court. If it should happen that you are discriminated against for asserting your rights, you may seek assistance from the U. S. Department of Labor, or you may file suit in a Federal court. The court will decide who should pay court costs and legal fees. If you are successful, the court may order the person you have sued to pay these costs and fees. If you lose, the court may order you to pay these costs and fees, for example, if it finds your claim is frivolous.

If you have any questions about the Plan, you should contact the Plan Administrator. If you have questions about this statement or about your rights under ERISA, or if you need assistance in obtaining documents from the Plan Administrator, you should contact the nearest office of the Pension and Welfare Benefits Administration, U.S. Department of Labor, listed in your telephone directory or the Division of Technical Assistance and Inquiries, Pension and Welfare Benefits Administration, U.S. Department of Labor, 200 Constitution Avenue N.W., Washington, D.C. 20210. You may also obtain certain publications about your rights and responsibilities under ERISA by calling the publications hotline of the Pension and Welfare Benefits Administration.

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IN WITNESS WHEREOF, HRB Management, Inc. adopts this Severance Plan effective this 23rd day of April, 2001.

HRB MANAGEMENT, INC.

/s/ Mark A. Ernst

Mark A. Ernst
President and Chief Executive Officer

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SCHEDULE A

PARTICIPATING EMPLOYERS

Block Financial Corporation

Financial Marketing Services, Inc.

Franchise Partner, Inc.

H&R Block Investments, Inc.

H&R Block Services, Inc. and its U.S.-based direct and indirect subsidiaries

HRB Business Services, Inc.

HRB Management, Inc.

HRB Retail Services, Inc.

Olde Financial Corporation and its U.S.-based direct and indirect subsidiaries, which subsidiaries include H&R Block Financial Advisors, Inc.

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EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT ("Agreement") is entered into as of November 1, 2001, by and between H&R Block Services, Inc., a Missouri corporation (the "Company"), and Thomas L. Zimmerman ("Executive").

ARTICLE ONE

EMPLOYMENT

1.01 - Agreement as to Employment. Effective June 30, 2001 (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 President, U.S. Tax Operations, subject to the authority and direction of the Board of Directors of the Company and the President of the Company. Subject to the foregoing, Executive will have such authority and responsibility and duties as are normally associated with the position of President, U.S. Tax Operations. The Company reserves the right to modify, delete, add, or otherwise change Executive's job responsibilities, in its sole discretion, at any time. Executive will perform such other duties as are assigned to Executive from time to time.

(b) So long as Executive is employed under this Agreement, Executive agrees to devote Executive's full business time and efforts exclusively on behalf of the Company and to competently and diligently discharge Executive's duties hereunder. Executive will not be prohibited from engaging in such personal, charitable, or other nonemployment activities that do not interfere with Executive's full-time employment hereunder and that do not violate the other provisions of this Agreement or the H&R Block, Inc. Code of Business Ethics & Conduct, which Executive acknowledges having read and understood. Executive will comply fully with all reasonable policies of the Company as are from time to time in effect and applicable to Executive's position. Executive understands that the business of H&R Block, Inc. ("Block"), the Company, and/or any other direct or indirect subsidiary of Block (each such other subsidiary an "Affiliate") may be subject to governmental regulation, some of which may require Executive to submit to background investigation as a condition of Block, the Company, and/or Affiliates' participation in certain activities subject to such regulation. If Executive, Block, the Company, or Affiliates are unable to participate, in whole or in part, in any such activity as the result of any action or inaction on the part of Executive, then this Agreement and Executive's employment hereunder may be terminated by the Company without notice.

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1.03 - Compensation. The Company will pay to Executive a gross salary at an annual rate of \$310,000 ("Base Salary"), payable semimonthly or at any other pay periods as the Company may use for its other executive 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.

1.04 - June 30, 2001 Stock Option Grant. As additional consideration for entering into this Agreement, Executive was granted as of June 30, 2001, a stock option under Block's 1993 Long-Term Executive Compensation Plan, as amended (the "1993 Plan") to purchase 30,000 shares of Block's common stock at an option price per share equal to \$64.55, such stock option being conditioned on the entry into this Agreement and otherwise having terms and conditions consistent with the terms and conditions of options granted to other senior executive officers of Block and its subsidiaries.

1.05 - 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.

1.06 - 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.

1.07 - 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.

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

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

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

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

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

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

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

(b) With Notice. Either party may terminate this Agreement for any reason, or no reason, by providing not less than 45 days' prior written

notice of such termination to the other party, and, if such notice is properly given, this Agreement and Executive's employment hereunder will terminate as of the close of business on the 45th day after such notice is deemed to have been given or such later date as is specified in such notice.

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(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 1.08(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

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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 executes an agreement with the Company under which Executive releases all known and potential claims against Block, the Company, and Affiliates. Such compensation and benefits will be Executive's election (the "Severance Election") of the same level of severance compensation and benefits as would be provided under the Severance Plan as such plan exists either (A) on the date of this Agreement or (B) Executive's Last Day of Employment. The Severance Plan as it exists on the date of this Agreement is attached hereto as Exhibit A. Executive must notify the Company in writing within 5 business days after Executive's Last Day of Employment of Executive's Severance Election. Severance compensation and benefits provided under this Section 1.08(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 1.08, (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

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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,

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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

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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

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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. This Agreement cancels and supercedes Executive's employment agreement with H&R Block Tax Services, Inc. dated January 20, 1998, and any amendments, modifications, or supplements thereto. 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

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"gross up" any relocation benefits paid to Executive pursuant to Subsection 1.05(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: 4400 Main Street, Kansas City, Missouri 64111; and to the Company at: 4400 Main Street, Kansas City, Missouri 64111, Attn: President, with a copy to H&R Block, Inc., 4400 Main Street, Kansas City, Missouri 64111, Attn: Corporate Secretary; or to such other address and/or person designated by either party in writing to the other party. Any notice given by mail will be deemed given as of the date it is so mailed and postmarked or received by a nationally recognized overnight courier for delivery.

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

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

EXECUTIVE:

Dated: 11/1/01

/s/ Thomas L. Zimmerman

Thomas L. Zimmerman

Accepted and Agreed:

H&R BLOCK SERVICES, INC.
a Missouri corporation

By: /s/ Jeffrey W. Yabuki

Jeffrey W. Yabuki
President

Dated: 1-15-02

EMPLOYMENT AGREEMENT EXHIBIT A
H&R BLOCK SEVERANCE PLAN
(AS AMENDED MAY 17, 2001)

1. PURPOSE. The H&R Block Severance Plan is a welfare benefit plan established by HRB Management, Inc., an indirect subsidiary of H&R Block, Inc., for the benefit of certain subsidiaries of H&R Block, Inc. in order to provide severance compensation and benefits to certain employees of such subsidiaries whose employment is involuntarily terminated under the conditions set forth herein. This document constitutes both the plan document and the summary plan description required by the Employee Retirement Income Security Act of 1974.

2. DEFINITIONS.

(a) "Company" means H&R Block, Inc.

(b) "Employee" means a regular full-time or part-time, active employee of a Participating Employer whose employment with a Participating

Employer is not subject to an employment contract that contains a provision that includes severance benefits. This definition expressly excludes seasonal, temporary and inactive employees of a Participating Employer and employees who are customarily employed by a Participating Employer less than 20 hours per week.

(c) "ERISA" means the Employee Retirement Income Security Act of 1974, as amended.

(d) "Hour of Service" means each hour for which an individual was entitled to compensation as a regular full-time or part-time employee from a subsidiary of the Company.

(e) "Line of Business of the Company" with respect to a Participant means any line of business of the Participating Employer by which the Participant was employed as of the Termination Date, as well as any one or more lines of business of any other subsidiary of the Company by which the Participant was employed during the two-year period preceding the Termination Date, provided that, if Participant's employment was, as of the Termination Date or during the two-year period immediately prior to the Termination Date, with HRB Management, Inc. or any successor entity thereto, "Line of Business of the Company" shall mean any lines of business of the Company and all of its subsidiaries.

(f) "Participant" means an Employee who has incurred a Qualifying Termination and has signed a Release that has not been revoked during any

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revocation period provided under the Release.

(g) "Participating Employer" means a direct or indirect subsidiary of the Company (i) listed on Schedule A, attached hereto, which may change from time to time to reflect new Participating Employers or withdrawing Participating Employers, and (ii) approved by the Plan Sponsor for participation in the Plan.

(h) "Plan" means the "H&R Block Severance Plan," as stated herein, and as may be amended from time to time.

(i) "Plan Administrator" and "Plan Sponsor" means HRB Management, Inc. The address and telephone number of HRB Management, Inc. is 4400 Main Street, Kansas City, Missouri 64111, (816) 753-6900. The Employer Identification Number assigned to HRB Management, Inc. by the Internal Revenue Service is 43-1632589.

(j) "Qualifying Termination" means the involuntary termination of an Employee, but does not include a termination resulting from:

(i) the termination of an Employee as a result of the elimination of the Employee's position where the Employee was offered another position with a subsidiary of the Company at a comparable salary and benefit level, or where the termination results from a sale of assets or other corporate acquisition;

(ii) the redefinition of an Employee's position to a lower salary rate;

(iii) the termination of an Employee for cause; or

(iv) the non-renewal of employment contracts.

(k) "Release" means that agreement signed by and between an Employee who is eligible to participate in the Plan and the Employee's Participating Employer under which the Employee releases all known and potential claims against the Employee's Participating Employer and all of such employer's parents, subsidiaries, and affiliates.

(l) "Release Date" means, with respect to a Release that includes a revocation period, the date immediately following the expiration date of the revocation period in the Release that has been fully executed by both parties. "Release Date" means, with respect to a Release that does

not include a revocation period, the date the Release has been fully executed by both parties.

(m) "Severance Period" means the period of time during which a Participant may receive benefits under this Plan. The Severance Period with

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respect to a Participant begins on the Termination Date. A Participant's Severance Period will be the shorter of (i) 12 months or (ii) a number of months equal to the whole number of Years of Service determined under Section 2(p), unless earlier terminated in accordance with Section 8 of the Plan.

(n) "Termination Date" means the date the Employee severs employment with a Participating Employer.

(o) "Monthly Salary" means -

(i) with respect to an Employee paid on a salary basis, the Employee's current annual salary divided by 12; and

(ii) with respect to an Employee paid on an hourly basis, the Employee's current hourly rate times the number of hours he or she is regularly scheduled to work per week multiplied by 52 and then divided by 12.

(p) "Year of Service" means each period of 12 consecutive months ending on the Employee's employment anniversary date during which the Employee had at least 1,000 Hours of Service. In determining a Participant's Years of Service, the Participant will be credited with a partial Year of Service for his or her final period of employment commencing on his or her most recent employment anniversary date equal to a fraction calculated in accordance with the following formula:

$$\frac{\text{Number of days since most recent employment anniversary date}}{\text{-----}} \\ \text{-----} \\ 365$$

Despite an Employee's Years of Service calculated in accordance with the above, an Employee whose pay grade at his or her Participating Employer fits in the following categories at the time of the Qualifying Termination will be credited with no less than the specified Minimum Years of Service and no more than the specified Maximum Years of Service listed in the following table as applicable to such pay grade:

PAY GRADE -----	MINIMUM YEARS OF SERVICE -----	MAXIMUM YEARS OF SERVICE -----
81-89 and 231-235	6	18
65-80, 109-110, and 218-230	3	18
57-64, 105-108, and 210-217	1	18
48-56, 100-102, and 200-209	1	18

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3. ELIGIBILITY AND PARTICIPATION. All Employees who incur a Qualifying Termination and sign a Release are eligible to participate in the Plan. An eligible Employee will become a Participant in the Plan as of the Termination Date.

4. SEVERANCE COMPENSATION.

(a) Amount. Subject to Section 8, each Participant will receive during the Severance Period from the applicable Participating Employer aggregate severance compensation equal to:

(i) the Participant's Monthly Salary multiplied by the Participant's Years of Service; plus

(ii) one-twelfth of the Participant's target payout under the Short-Term Incentive Program of the Participating Employer in effect at the time of his or her Termination Date multiplied by the Participant's Years of Service; plus

(iii) an amount to be determined by the Participating Employer at its sole discretion, which amount may be zero.

(b) Timing of Payments. Except as stated in Section 4(c), and subject to Section 8,

(i) the sum of any amounts determined under Sections 4(a)(i) and 4(a)(ii) of the Plan will be paid in semi-monthly or bi-weekly installments (the timing and amount of each installment as determined by the Participating Employer) during the Severance Period beginning after the later of the Termination Date or the Release Date; and

(ii) any amounts determined under Section 4(a)(iii) of the Plan will be paid in one lump sum within 15 days after the later of the Termination Date or the Release Date, unless otherwise agreed in writing by the Participating Employer and Participant or otherwise required by law.

(c) Death. In the event of the Participant's death prior to receiving all payments due under this Section 4, any unpaid severance compensation will be paid (i) in the same manner as are death benefits under the Participant's basic life insurance coverage provided by the Participant's Participating Employer, and (ii) in accordance with the Participant's beneficiary designation under such coverage. If no such coverage exists, or if no beneficiary designation exists under such coverage as of the date of death of the Participant, the severance compensation will be paid to the Participant's estate in one-lump sum.

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5. HEALTH AND WELFARE BENEFITS.

(a) Benefits. In addition to the severance compensation provided pursuant to Section 4 of the Plan, a Participant may continue to participate in the following health and welfare benefits provided by his or her Participating Employer during the Severance Period on the same basis as employees of the Participating Employer:

(i) medical;

(ii) dental;

(iii) vision;

(iv) employee assistance;

(v) medical expense reimbursement and dependent care expense reimbursement benefits provided under a cafeteria plan;

(vi) life insurance (basic and supplemental); and

(vii) accidental death and dismemberment insurance (basic and supplemental).

For the purposes of any of the above-described benefits provided under a Participating Employer's cafeteria plan, a Qualifying Termination constitutes a "change in status" or "life event."

(b) Payment and Expiration. Payment of the Participant's portion of contribution or premiums for such selected benefits will be withheld from any severance compensation payments paid to the Participant under this Plan. The Participating Employer's partial subsidization of such coverages will remain in effect until the earlier of:

(i) the expiration or earlier termination of the Employee's Severance Period, after which time the Participant may be eligible to elect to continue coverage of those benefits listed above that are provided under group health plans in accordance with his or her rights under Section 4980B of the Internal Revenue Code; or

(ii) the Participant's attainment of or eligibility to attain health and welfare benefits through another employer after which time the Participant may be eligible to elect to continue coverage of those benefits listed above that are provided under group health plans in accordance with his or her rights under Section 4980B of the Internal

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Revenue Code.

6. STOCK OPTIONS.

(a) Accelerated Vesting. Any portion of any outstanding incentive stock options and nonqualified stock options that would have vested during the 18-month period following the Termination Date had the Participant remained an employee with the Participating Employer during such 18-month period will vest as of the Termination Date. This Section 6(a) applies only to options (i) granted to the Participant under the Company's 1993 Long-Term Executive Compensation Plan, or any successor plan to its 1993 Long-Term Executive Compensation Plan, not less than 6 months prior to his or her Termination Date and (ii) outstanding at the close of business on such Termination Date. The determination of accelerated vesting under this Section 6(a) shall be made as of the Termination Date and shall be based solely on any time-specific vesting schedule included in the applicable stock option agreement without regard to any accelerated vesting provision not related to the Plan in such agreement.

(b) Post-Termination Exercise Period. Subject to the expiration dates and other terms of the applicable stock option agreements, the Participant may elect to have the right to exercise any outstanding incentive stock options and nonqualified stock options granted prior to the Termination Date to the Participant under the Company's 1984 Long-Term Executive Compensation Plan, its 1993 Long-Term Executive Compensation Plan, or any successor plan to its 1993 Long-Term Executive Compensation Plan that are vested as of the Termination Date (or, if later, the Release Date), whether due to the operation of Section 6(a), above, or otherwise, at any time during the Severance Period and, except in the event that the Severance Period terminates pursuant to Section 8(a), for a period up to 3 months after the end of the Severance Period (notwithstanding Section 8). Any such election shall apply to all outstanding incentive stock options and nonqualified stock options, will be irrevocable and must be made in writing and delivered to the Plan Administrator on or before the later of the Termination Date or Release Date. If the Participant fails to make an election, the Participant's right to exercise such options will expire 3 months after the Termination Date.

(c) Stock Option Agreement Amendment. The operation of Sections 6(a) and 6(b), above, are subject to the Participant's execution of an amendment to any affected stock option agreements.

7. OUTPLACEMENT SERVICES. In addition to the benefits described above, career transition counseling or outplacement services may be provided upon the Participant's Qualifying Termination. Such outplacement service will be provided at the Participating Employer's sole discretion. Outplacement services are designed to assist employees in their search for new employment and to facilitate a smooth

transition between employment with the Participating Employer and employment with another employer. Any outplacement services provided under this Plan will be provided by an outplacement service chosen by the Participating Employer. The Participant is not entitled to any monetary payment in lieu of outplacement services.

8. TERMINATION OF BENEFITS. Any right of a Participant to severance compensation and benefits under the Plan, and all obligations of his or her Participating Employer to pay any unpaid severance compensation or provide benefits under the Plan will terminate as of the day:

(a) The Participant has engaged in any conduct described in Sections 8(a)(i), 8(a)(ii), 8(a)(iii) or 8(a)(iv), below, as the same may be limited pursuant to Section 8(a)(vi).

(i) During the Severance Period, the Participant's engagement in, ownership of, or control of any interest in (except as a passive investor in less than one percent of the outstanding securities of publicly held companies), or acting as an officer, director or employee of, or consultant, advisor or lender to, any firm, corporation, partnership, limited liability company, institution, business, government agency, or entity that engages in any line of business that is competitive with any Line of Business of the Company, provided that this Section 8(a)(i) shall not apply to the Participant if the Participant's primary place of employment by a subsidiary of the Company as of the Termination Date is in either the State of California or the State of North Dakota.

(ii) During the Severance Period, the Participant employs or solicits for employment by any employer other than a subsidiary of the Company any employee of any subsidiary of the Company, or recommends any such employee for employment to any employer (other than a subsidiary of the Company) at which the Participant is or intends to be (A) employed, (B) a member of the Board of Directors, (C) a partner, or (D) providing consulting services.

(iii) During the Severance Period, the Participant directly or indirectly solicits or enters into any arrangement with any person or entity which is, at the time of the solicitation, a significant customer of a subsidiary of the Company for the purpose of engaging in any business transaction of the nature performed by such subsidiary, or contemplated to be performed by such subsidiary, for such customer, provided that this Section 8(a)(iii) shall only apply to customers for whom the Participant personally provided services while employed by a subsidiary of the Company or customers about whom or which the Participant acquired material information while employed by a subsidiary of the Company.

(iv) During the Severance Period, the Participant misappropriates or improperly uses or discloses confidential information of the Company and/or its subsidiaries.

(v) If the Participant engaged in any of the conduct described in Sections 8(a)(i), 8(a)(ii), 8(a)(iii) or 8(a)(iv) during or after Participant's term of employment with a Participating Employer, but prior to the commencement of the Severance Period, and such engagement becomes known to the Participating Employer during the Severance Period, such conduct shall be deemed, for purposes of Sections 8(a)(i), 8(a)(ii), 8(a)(iii) or 8(a)(iv) to have occurred during the Severance Period.

(vi) If the Participant is a party to an employment contract with a Participating Employer that contains a covenant or

covenants relating to the Participant's engagement in conduct that is the same as or substantially similar to the conduct described in any of Sections 8(a)(i), 8(a)(ii), 8(a)(iii) or 8(a)(iv), and any specific conduct regulated in such covenant or covenants in such employment contract is more limited in scope geographically or otherwise than the corresponding specific conduct described in any of such Sections 8(a)(i), 8(a)(ii), 8(a)(iii) or 8(a)(iv), then the corresponding specific conduct addressed in the applicable Section 8(a)(i), 8(a)(ii), 8(a)(iii) or 8(a)(iv) shall be limited to the same extent as such conduct is limited in the employment contract and the Participating Employer's rights and remedy with respect to such conduct under this Section 8 shall apply only to such conduct as so limited.

(b) The Participant is rehired by his or her Participating Employer or hired by any other subsidiary of the Company.

9. AMENDMENT AND TERMINATION. The Plan Sponsor reserves the right to amend the Plan or to terminate the Plan and all benefits hereunder in their entirety at any time.

10. ADMINISTRATION OF PLAN. The Plan Administrator has the power and discretion to construe the provisions of the Plan and to determine all questions relating to the eligibility of employees of Participating Employers to become Participants in the Plan, and the amount of benefits to which any Participant may be entitled thereunder in accordance with the Plan. Not in limitation, but in amplification of the foregoing and of the authority conferred upon the Plan Administrator, the Plan Sponsor specifically intends that the Plan Administrator have the greatest permissible discretion to construe the terms of the Plan and to determine all questions concerning eligibility, participation and benefits. Any such decision made by the Plan Administrator will be binding on all Employees, Participants, and Beneficiaries, and is intended to be subject to the most deferential standard of judicial review. Such standard of review is not to be affected by any

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real or alleged conflict of interest on the part of the Plan Administrator. The decision of the Plan Administrator upon all matters within the scope of its authority will be final and binding.

11. CLAIMS PROCEDURES.

(a) FILING A CLAIM FOR BENEFITS. Participants are not required to submit claim forms to initiate payment of benefits under this Plan. To make a claim for benefits, individuals other than Participants who believe they are entitled to receive benefits under this Plan and Participants who believe they have been denied certain benefits under the Plan must write to the Plan Administrator. These individuals and such Participants are hereinafter referred to in this Section 11 as "Claimants." Claimants must notify the Plan Administrator if they will be represented by a duly authorized representative with respect to a claim under the Plan.

(b) INITIAL REVIEW OF CLAIMS. The Plan Administrator will evaluate a claim for benefits under the Plan. The Plan Administrator may solicit additional information from the Claimant if necessary to evaluate the claim. If the Plan Administrator denies all or any portion of the claim, the Claimant will receive, within 90 days after the receipt of the written claim, a written notice setting forth:

- (i) the specific reason for the denial;
- (ii) specific references to pertinent Plan provisions on which the Plan Administrator based its denial;
- (iii) a description of any additional material and information needed for the Claimant to perfect his or her claim and an explanation of why the material or information is needed; and
- (iv) that any appeal the Claimant wishes to make of the adverse determination must be in writing to the Plan

Administrator within 60 days after receipt of the notice of denial of benefits. The notice must advise the Claimant that his or her failure to appeal the action to the Plan Administrator in writing within the 60-day period will render the Plan Administrator's determination final, binding and conclusive. The notice must further advise the Claimant of his or her right to bring a civil action under Section 502(a) of ERISA following the exhaustion of the claims procedures described herein.

(c) APPEAL OF DENIED CLAIM AND FINAL DECISION. If the Claimant should appeal to the Plan Administrator, the Claimant, or his or her duly authorized representative, must submit, in writing, whatever issues and comments the Claimant or his or her duly authorized representative feels are

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pertinent. The Claimant, or his or her duly authorized representative, may review and request pertinent Plan documents. The Plan Administrator will reexamine all facts related to the appeal and make a final determination as to whether the denial of benefits is justified under the circumstances. The Plan Administrator will advise the Claimant in writing of its decision within 60 days of the Claimant's written request for review, unless special circumstances (such as a hearing) require an extension of time, in which case the Plan Administrator will make a decision as soon as possible, but no later than 120 days after its receipt of a request for review.

12. PLAN FINANCING. The benefits to be provided under the Plan will be paid by the applicable Participating Employer, as incurred, out of the general assets of such Participating Employer.

13. GENERAL INFORMATION. The Plan's records are maintained on a calendar year basis. The Plan Number is 509. The Plan is self-administered and is considered a severance plan.

14. GOVERNING LAW. The Plan is established in the State of Missouri. To the extent federal law does not apply, any questions arising under the Plan will be determined under the laws of the State of Missouri.

15. ENFORCEABILITY; SEVERABILITY. If a court of competent jurisdiction determines that any provision of the Plan is not enforceable, then such provision shall be enforceable to the maximum extent possible under applicable law, as determined by such court. The invalidity or unenforceability of any provision of the Plan, as determined by a court of competent jurisdiction, will not affect the validity or enforceability of any other provision of the Plan and all other provisions will remain in full force and effect.

16. WITHHOLDING OF TAXES. The applicable Participating Employer may withhold from any benefit payable under the Plan all federal, state, city or other taxes as may be required pursuant to any law, governmental regulation or ruling. The Participant shall pay upon demand by the Company or the Participating Employer any taxes required to be withheld or collected by the Company or the Participating Employer upon the exercise by the Participant of a nonqualified stock option granted under the Company's 1984 Long-Term Executive Compensation Plan or its 1993 Long-Term Executive Compensation Plan. If the Participant fails to pay any such taxes associated with such exercise upon demand, the Participating Employer shall have the right, but not the obligation, to offset such taxes against any unpaid severance compensation under this Plan.

17. NOT AN EMPLOYMENT AGREEMENT. Nothing in the Plan gives an Employee any rights (or imposes any obligations) to continued employment by his or her Participating Employer or other subsidiary of the Company, nor does it give such Participating Employer any rights (or impose any obligations) for the continued

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performance of duties by the Employee for the Participating Employer or any other subsidiary of the Company.

18. NO ASSIGNMENT. The Employee's right to receive payments of severance compensation and benefits under the Plan are not assignable or transferable, whether by pledge, creation of a security interest, or otherwise. In the event of any attempted assignment or transfer contrary to this section, the applicable Participating Employer will have no liability to pay any amount so attempted to be assigned or transferred.

19. SERVICE OF PROCESS. The Secretary of the Plan Administrator is designated as agent for service of legal process. Service of legal process may be made upon the Secretary of the Plan Administrator at:

HRB Management, Inc.
Attn: Secretary
4400 Main Street
Kansas City, Missouri 64111

20. STATEMENT OF ERISA RIGHTS. As a participant in the Plan, you are entitled to certain rights and protections under ERISA, which provides that all Plan Participants are entitled to:

(a) examine without charge, at the Plan Administrator's office, all documents governing the Plan and a copy of the latest annual report (Form 5500 Series) filed by the Plan with the U.S. Department of Labor and available at the Public Disclosure Room of the Pension and Welfare Benefit Administration;

(b) obtain, upon written request to the Plan Administrator, copies of documents governing the operation of the Plan, copies of the latest annual report (Form 5500 Series) and an updated summary plan description. The Plan Administrator may make a reasonable charge for the copies; and

(c) receive a summary of the Plan's annual financial report if required to be filed for the year. The Plan Administrator is required by law to furnish each participant with a copy of this summary annual report if an annual report is required to be filed for the year.

In addition to creating rights for Plan Participants, ERISA imposes duties upon the people who are responsible for the operation of the Plan. The people who operate your Plan, called "fiduciaries" of the Plan, have a duty to do so prudently and in the interest of you and other Plan Participants and beneficiaries. No one, including your Participating Employer or any other person, may fire you or otherwise discriminate against you in any way to prevent you from obtaining a welfare benefit or exercising your rights under ERISA.

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If your claim for a welfare benefit is denied or ignored, in whole or in part, you have the right to know why this was done, to obtain copies of documents relating to the decision without charge, and to appeal any denial, all within certain time schedules.

Under ERISA, there are steps you can take to enforce the above rights. For instance, if you request a copy of plan documents or the latest annual report from the Plan and do not receive them within 30 days, you may file suit in a Federal court. In such a case, the court may require the Plan Administrator to provide the materials to you and pay you up to \$110 a day until you receive the materials, unless the materials were not sent because of reasons beyond the control of the Plan Administrator. If you have a claim for benefits that is denied or ignored, in whole or in part, you may file suit in a state or Federal court. If it should happen that you are discriminated against for asserting your rights, you may seek assistance from the U. S. Department of Labor, or you may file suit in a Federal court. The court will decide who should pay court costs and legal fees. If you are successful, the court may order the person you have sued to pay these costs and fees. If you lose, the court may order you to pay these costs and fees, for example, if it finds your claim is frivolous.

If you have any questions about the Plan, you should contact the Plan Administrator. If you have questions about this statement or about your rights under ERISA, or if you need assistance in obtaining documents from the Plan Administrator, you should contact the nearest office of the Pension and Welfare Benefits Administration, U.S. Department of Labor, listed in your telephone directory or the Division of Technical Assistance and Inquiries, Pension and

Welfare Benefits Administration, U.S. Department of Labor, 200 Constitution Avenue N.W., Washington, D.C. 20210. You may also obtain certain publications about your rights and responsibilities under ERISA by calling the publications hotline of the Pension and Welfare Benefits Administration.

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IN WITNESS WHEREOF, HRB Management, Inc. adopts this Severance Plan effective this 23rd day of April, 2001.

HRB MANAGEMENT, INC.

/s/ Mark A. Ernst

Mark A. Ernst
President and Chief Executive Officer

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SCHEDULE A

PARTICIPATING EMPLOYERS

Block Financial Corporation

Financial Marketing Services, Inc.

Franchise Partner, Inc.

H&R Block Investments, Inc.

H&R Block Services, Inc. and its U.S.-based direct and indirect subsidiaries

HRB Business Services, Inc.

HRB Management, Inc.

HRB Retail Services, Inc.

Olde Financial Corporation and its U.S.-based direct and indirect subsidiaries, which subsidiaries include H&R Block Financial Advisors, Inc.

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