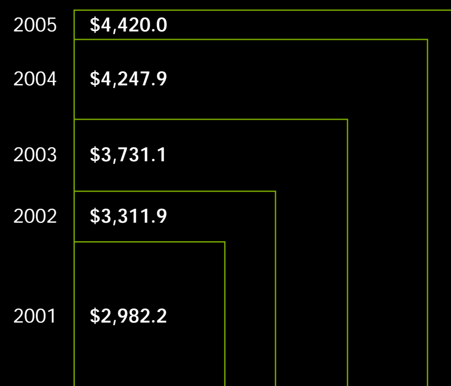
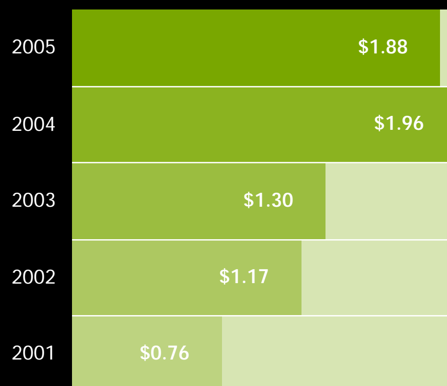
H&R BLOCK

2005 ANNUAL REPORT >>> 2005 PROXY STATEMENT

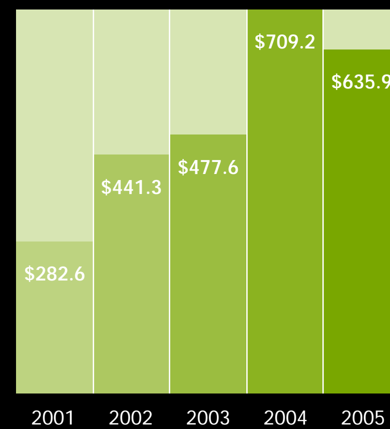
CONSOLIDATED REVENUES
>>> (IN MILLIONS)



EARNINGS PER SHARE
>>> PER DILUTED SHARE



CONSOLIDATED NET INCOME
>>> (IN MILLIONS)



Straightforward >>> Much progress was made in 2005 to strengthen H&R Block for long-term growth. Executives from our three branded businesses — H&R Block, RSM McGladrey and Option One — talk frankly about our successes and the challenges facing our businesses, and how we'll make the most of our opportunities for the upcoming year and beyond.

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Proxy Statement (green band)

Form 10-K (black band)

SELECTED FINANCIAL HIGHLIGHTS

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

Year Ended April 30	**2005**	2004	2003	2002	2001
FOR THE YEAR >>>					
Total revenues	**$ 4,420,019**	$ 4,247,880	$ 3,731,126	$ 3,311,943	$ 2,982,157
Net income before change in accounting principle	**$ 635,857**	$ 715,608	$ 477,615	$ 441,287	$ 278,211
Net income	**$ 635,857**	$ 709,249	$ 477,615	$ 441,287	$ 282,625
AT YEAR END >>>					
Total assets	**$ 5,539,283**	$ 5,232,732	$ 4,666,502	$ 4,396,731	$ 4,170,980
Long-term debt	**$ 923,073**	$ 545,811	$ 822,302	$ 868,387	$ 870,974
Stockholders' equity	**$ 1,976,371**	$ 1,819,815	$ 1,589,398	$ 1,375,065	$ 1,172,504
Shares outstanding	**331,240**	346,192	359,202	362,252	367,216
Number of shareholders	**30,839**	29,430	30,716	31,094	31,523
MEASUREMENTS >>>					
Basic earnings per share:					
Net income before change in accounting principle	**$ 1.92**	$ 2.02	$ 1.33	$ 1.21	$ 0.76
Net income	**$ 1.92**	$ 2.00	$ 1.33	$ 1.21	$ 0.77
Diluted earnings per share:					
Net income before change in accounting principle	**$ 1.88**	$ 1.98	$ 1.30	$ 1.17	$ 0.75
Net income	**$ 1.88**	$ 1.96	$ 1.30	$ 1.17	$ 0.76
Other per share data:					
Cash dividends declared	**$ 0.43**	$ 0.39	$ 0.35	$ 0.32	$ 0.29
Net book value	**$ 5.97**	$ 5.26	$ 4.42	$ 3.80	$ 3.19
Return on total revenues	**14.4%**	16.8%	12.8%	13.3%	9.3%
Return on stockholders' equity	**33.5%**	41.6%	32.2%	34.6%	23.7%
Return on average assets	**11.8%**	14.3%	10.5%	10.3%	5.7%
Working capital ratio	**1.39**	1.18	1.36	1.16	1.13
Debt to total capital ratio	**32.4%**	31.1%	35.6%	40.3%	44.0%
Total equity to total assets	**0.36**	0.35	0.34	0.31	0.28
Dividend yield	**1.7%**	1.7%	1.8%	1.6%	2.1%
Dividend payout ratio	**22.5%**	19.5%	26.4%	26.2%	38.3%

By Many Measures, 2005 Was a Successful Year.

MARK ERNST >>>
H&R Block Chairman, President and Chief Executive Officer

Letter to Shareholders >>>

It seems particularly fitting that as H&R Block celebrated its 50th anniversary this year, we also took significant steps that strengthened our leadership position in the income tax services business. Although we faced some challenges in the pursuit of our mission to serve our clients' financial as well as income tax needs, our associates' continuing determination to grow the business and their commitment to client service have enabled us to meet these challenges head on. The company has emerged stronger, well positioned for future growth, and with greater confidence than ever before.

Certainly we have much to be proud of this year:

- Revenues grew 4%.
- Return on equity was 33.5%.
- Earnings exceeded $635 million.

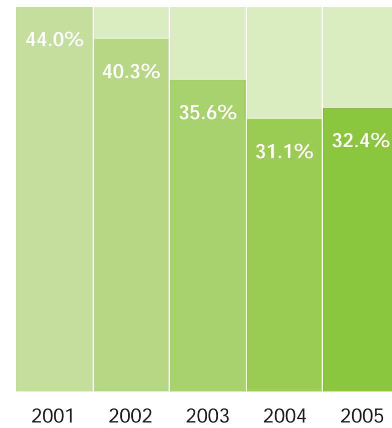
At the same time, we saw our earnings per share decline slightly by 4 percent to $1.88 per diluted share. This was a result of several factors facing our mortgage and financial advisors businesses, which offset a 4 percent reduction in shares outstanding. However, we ended the year in a strong financial position with modest debt and solid capital levels.

Our approach to running the company remains unchanged. We are committed to building our various

JEFF YABUKI >>>
Executive Vice President
and Chief Operating Officer

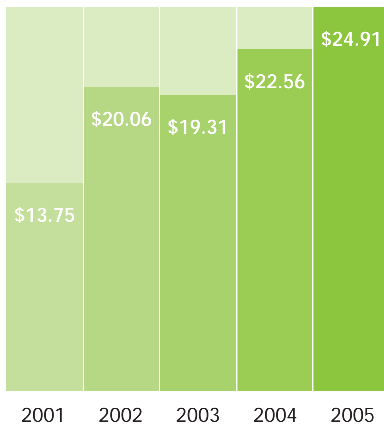
"We are continually enhancing our value proposition to better serve an increasing number of clients and build our level of sustainable competitive differentiation."

DEBT TO CAPITAL*



*Debt divided by debt plus stockholders' equity

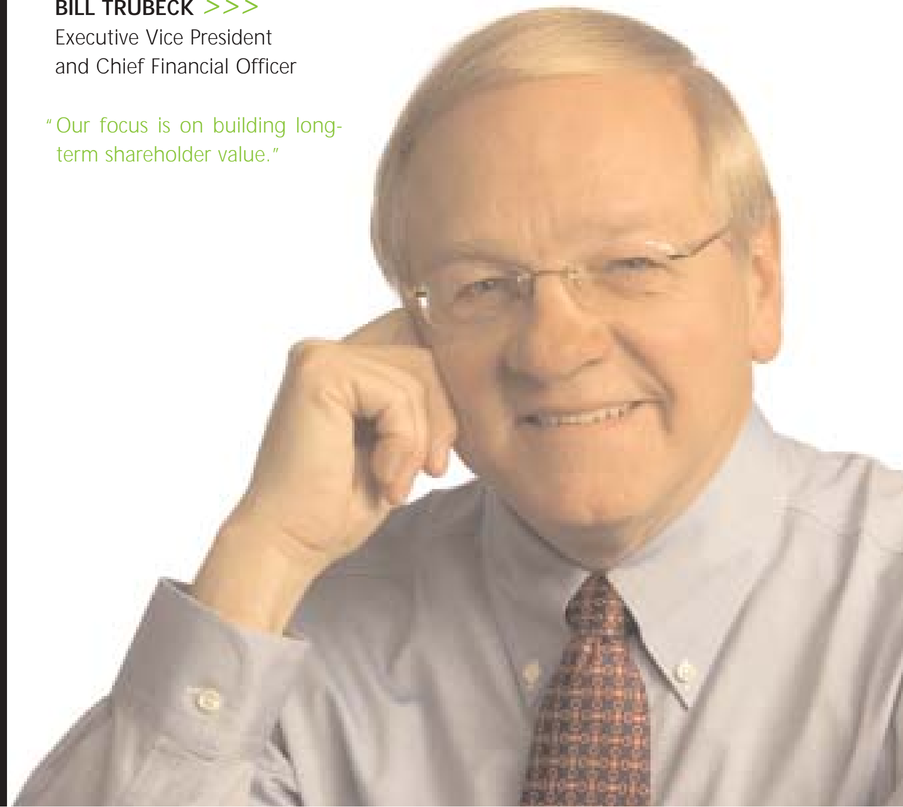
FIVE-YEAR PERFORMANCE
>>> HRB YEAR-END STOCK PRICE



Source: Bloomberg

BILL TRUBECK >>>
Executive Vice President
and Chief Financial Officer

"Our focus is on building long-term shareholder value."



businesses for long-term success, to creating unique value for all of our clients, and to prudently using our capital in ways that will create the greatest value for long-term shareholders.

For example, we invested in the largest expansion of H&R Block tax office locations in the company's history, grew the scale of our Option One and H&R Block Mortgage origination staffs, and improved our ability to provide broad services to our RSM McGladrey clients. We invested in new businesses and built our client service capabilities in ways that measurably enhance the quality of service we provide to our various clients across the organization.

Each of these actions will allow us to be more successful in the future, despite the short-term earnings reductions they may create. We will continue making decisions that we expect will reward shareholders in the long term, while strengthening the unique position we have in those markets in which we participate.

U.S. Tax Retail Expansion Strengthens Our Leadership Position

Our retail and digital tax businesses met an increasingly competitive environment with conviction, reasserting the leadership that H&R Block has shown over its 50-year history. During the past tax season, we opened more than 600 new company-owned offices, approximately 450 new co-locations with partners such as Wal-Mart and Sears, and supported our franchise community in opening about 150 new offices.

These more than 1,200 new locations contributed to the segment's 8 percent increase in revenues and 4 percent increase in pretax earnings. Perhaps more importantly, they helped to reverse a two-year trend of declining client traffic, while also contributing to an increase in overall client satisfaction and client retention.

The retail expansion, while both a challenge to our management resources and a drag on our current year operating earnings, is expected to pay back in the form of greater client growth and profitability for years to come. And, we fully expect to continue our expansion program in fiscal 2006, opening between 500 and 700 new offices to ensure that H&R Block meets our clients' demands for convenient service with minimal wait times.

In addition to making our service more convenient, we continue to focus on the value we deliver to clients. Our core strategy — to serve as our clients' tax and financial partner — continues to generate results and show promise for H&R Block's future.

At the same time that we are re-establishing growth in the retail market, we're experiencing changes in the software and online tax market. Our revenue and profit growth from digital tax services increased 8 percent and 21 percent, respectively, in a highly competitive and rapidly changing environment.

While both our software and online businesses were impacted by aggressive competition, we were encouraged by the growing consumer interest in our services that combine the speed and convenience of digital technology with the expertise and assurance provided by our tax professionals. Integrating these services is a key differentiator, as only H&R Block effectively blends digital and professional assistance services. We are exploring ways to compete more aggressively and leverage this advantage in the 2006 tax season.

Actions Taken to Improve Financial Advisors' Performance

We are disappointed that H&R Block Financial Advisors did not meet our financial expectations again this year. While revenues increased 4 percent, we saw only a very slight improvement to the pretax loss.

On the positive side, the actions we put in place near the end of the year to improve this business segment's performance are taking hold. Those actions included restructuring the business and more closely aligning costs with near-term revenue potential.

In addition, we've implemented strict financial advisor production standards while also strengthening our programs that build financial advisor/tax professional partnerships. These partnerships provided more than 100,000 direct leads to financial advisors this past tax season, an 82 percent increase over last year. Clients continue to demonstrate a desire to have a financial advisor relationship with H&R Block.

As we continue to focus on attracting and retaining productive advisors, along with the measures mentioned above, we expect this segment's results must substantially improve in fiscal 2006.

Option One Addresses A Changing Mortgage Market

For a number of years, we have highlighted Option One's unique business and outstanding financial results, while at the same time knowing that market dynamics would change and present challenges to this business. We saw that change this year, with revenues declining 6 percent to $1.2 billion and earnings dropping 28 percent to $496.1 million from the previous year. Although the market dynamics generated disappointing financial results, we are still pleased with the way our organization responded to the market challenges.

As short-term interest rates began to rise early in our fiscal year, production volume growth began to slow and industry pricing became very competitive. We undertook an aggressive expansion in the number of account executives and support staff, which allowed more clients to access Option One's industry-leading mortgage service quality. In the process, we increased loan production more than 33 percent to $31 billion.

At the same time, we were highly focused on cost management, reducing our cost of originating loans by 47 basis points in the fourth quarter when compared to the same period in the previous year. We expect continued production growth in fiscal 2006 and believe our ongoing efforts can deliver a net cost of origination of 175 to 200 basis points by the end of the fiscal year.

We also began utilizing technology solutions to enhance our competitive position within the market. Our recently introduced prequalification technology will enable Option One to more efficiently serve our growing network of broker clients, while our new automated underwriting process will be implemented in the coming year.

Option One's mortgage servicing business continues to grow, as we increased the number of loans serviced by more than 34 percent. Likewise, our servicing portfolio saw a healthy increase of 50 percent to $68 billion at year's end.

H&R Block Mortgage, our retail mortgage subsidiary, continues to increase the number of loans made to our tax clients, as programs to strengthen the integration between our income tax and mortgage businesses resulted in the largest number of qualified referrals to H&R Block Mortgage in the company's history. This segment of our mortgage business originated nearly 30 percent more loans this year than last.

Our business and the mortgage industry as a whole have benefited from appreciating home values and historically low interest rates. However, these factors can't last forever. Undoubtedly, we will face new challenges in the future. The actions that we

took during 2005 and will continue to build upon in 2006 have prepared us for the uncertainties of this market. The competence and character demonstrated by our organization represent a unique advantage that we can translate into future shareholder value.

RSM McGladrey Demonstrates Its Potential in 2005

No business better exemplifies why we focus on creating long-term success than RSM McGladrey. For several years, we have been building unique capabilities to serve the needs of midsized companies in the United States. Starting with the development of the nation's leading accounting organization serving the middle market, we then invested in attractive lines of business that would complement our core client relationships and meet the broader needs of our business clients.

Our approach was slow but steady as we worked to blend the right combination of services that would meet the needs of midsized companies. In 2005, we began to realize the potential of this long-term investment as RSM McGladrey delivered its most successful year ever. Revenues grew nearly 15 percent to $573.3 million, while earnings improved 50 percent to nearly $29 million.

Our core accounting business had a strong year, as demand for our services grew. More importantly, the focus that we place on midmarket clients is allowing us to take advantage of a unique market opportunity.

Equally significant, our leaders are acting on the incredible opportunity that this market offers us. Investments into business development and marketing activities are creating the ability for sustainable growth, even if the current strong demand for our services slows. Investments into emerging businesses such as financial process outsourcing, payroll processing and wealth management have begun to demonstrate the financial promise that we recognized in them when they were started.

In the coming years, we believe RSM McGladrey and its related businesses will become as well known to midsized companies as H&R Block is to consumers. This growing brand recognition, combined with the investments we have made, will enable our shareholders to realize the financial rewards of this emerging leader in the tax, accounting and business services market.

A Proud History and a Bright Future

For some companies, 50 years represents success. For H&R Block, it represents a beginning. Our success, our heritage, the values of our organization, and the strength of our brands and market positions give us the foundation for a very bright future.

Of course, no company flourishes for 50 years without the valuable contribution of many talented individuals. Still, it is rare when one individual has the impact that Director G. Kenneth Baum has had on H&R Block. Kenny will be retiring from the Board this year after serving for 44 years. He has become both the historian of H&R Block's past and the voice for our future potential. He has personally reflected the integrity of H&R Block as a staunch advocate for good governance, while serving as a highly effective counselor and supporter. I will miss his insight, wit and optimism for what H&R Block can become.

Let me close by thanking our thousands of associates for their many contributions to serving clients with distinction. As shareholders, we are fortunate to have an organization ready to take us into the next 50 years.

MARK A. ERNST
Chairman, President and Chief Executive Officer

CORPORATE VALUES

H&R Block has millions of one-to-one relationships with our clients worldwide. Each relationship is built on a foundation of trust. And those relationships, as well as our day-to-day business decisions, are guided by our corporate values. Our values are fundamental to the promise of the H&R Block brand.

Client Focused > We are passionate about helping clients. Their success is a key measure of our success.

Integrity > We are honest and ethical in everything we do.

Excellence > We take pride in doing our best in everything we do. We embrace change to learn and grow.

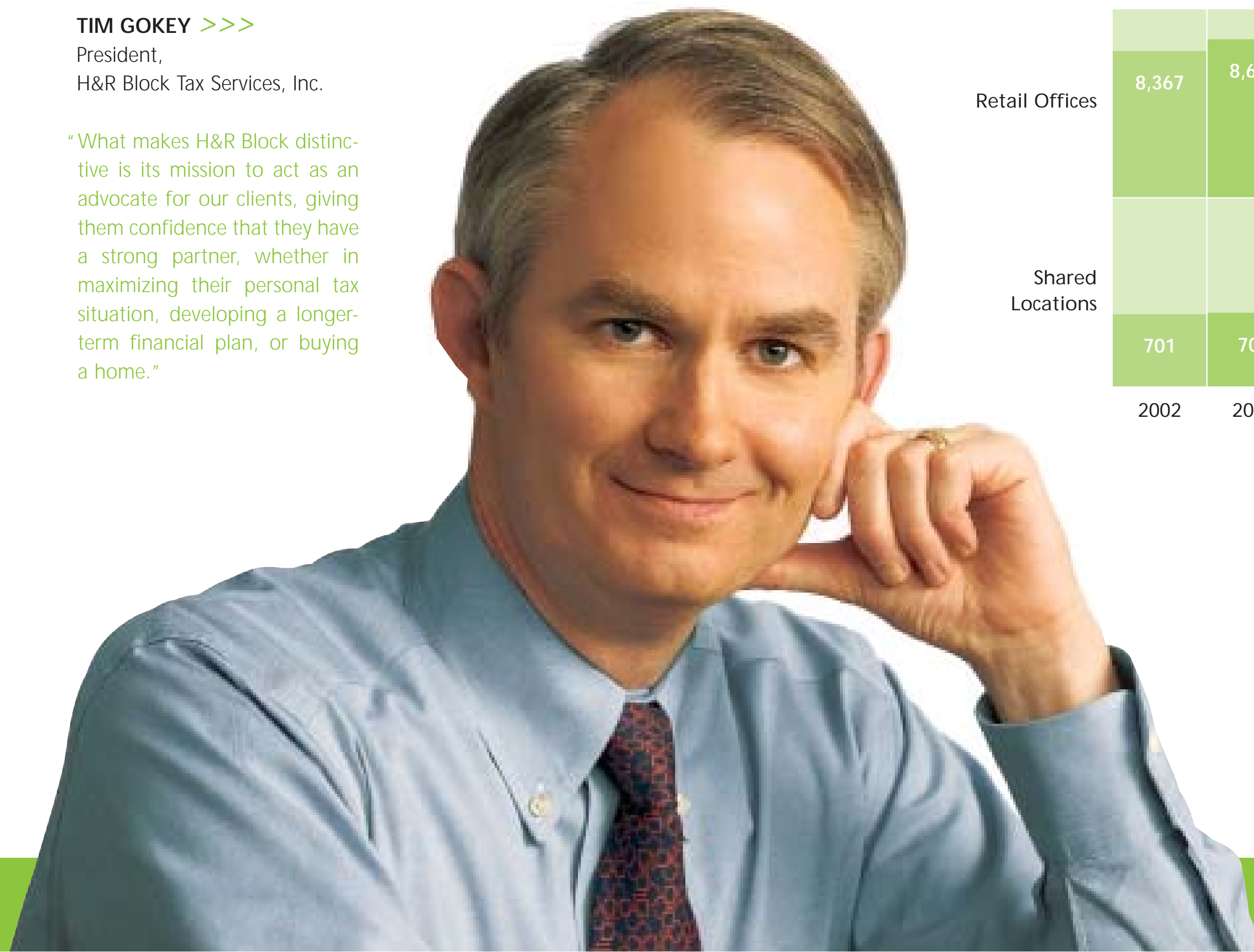
Respect > We treat each other with respect and dignity, recognizing that innovation springs from unique perspectives.

Teamwork > Everyone's collaboration and full participation make us stronger and allow us to serve clients better.

H&R Block Is Working to Become America's Tax and Financial Partner.

TIM GOKEY >>>
President,
H&R Block Tax Services, Inc.

"What makes H&R Block distinctive is its mission to act as an advocate for our clients, giving them confidence that they have a strong partner, whether in maximizing their personal tax situation, developing a longer-term financial plan, or buying a home."



RETAIL TAX LOCATION GROWTH

	2002	2003	2004	2005
Retail Offices	8,367	8,655	8,590	9,339
Shared Locations	701	702	1,319	1,822

Taking a Client-Focused Approach to Service >>>

Q H&R Block has the largest retail tax office network in the country, so why did you add more than 1,200 new locations this year?

A Convenience is a key factor for our clients. They want to find an office convenient to their home or work that provides quick, efficient and accurate service. That's why we opened more than 1,200 new locations this tax season, including company-owned and franchised offices and approximately 400 new Wal-Mart locations. The availability of more sophisticated market data allows us to pinpoint the optimal cities and neighborhoods for these new locations to help ensure their success.

This was the first phase of our expansion program, which we plan to continue in tax season 2006, opening approximately 500 to 700 new locations. In addition, we recently launched the largest franchise expansion in the company's history, which is an effective way to build our office network.

Q Were you pleased with the performance of your new tax offices this year?

A They met our expectations, enabling us to serve more clients during our peak periods, accounting for nearly 250,000 incremental clients over the prior tax season. As these new offices mature, they will continue to increase their client base and significantly contribute to future growth. Equally important was our ability to undertake such an extensive network expansion and open all offices on time and staffed with skilled tax professionals.

Q Do you sacrifice quality for quantity with such an extensive expansion?

A While increasing our retail network was a key initiative, so, too, was improving the service our clients experienced. From new research, we learned what was most important to them and then used that information to enhance our tax professional training and service in our offices.

We took a three-pronged approach to improving client experience and satisfaction. We worked to make our clients feel more connected to their tax professionals and to H&R Block, confident in the tax and financial expertise received, and championed in that we go above and beyond their expectations. Delivering this kind of experience builds client loyalty and keeps clients coming back year after year.

By focusing on improving our client experience, we enhanced the quality of our service while growing our retail network. We experienced significant increases in client satisfaction, including improvements in clients' perception that our services are a good value for the money and that they intend to return to H&R Block next year.

Q How did your retail office expansion impact operating margins?

A We made a significant investment in expanding our office network, but view this investment as building for long-term growth and shareholder value. As expected, our U.S. retail expansion efforts decreased our tax operations' segment margin, excluding results from international operations, by 90 basis points from the prior year. However, the decline was partially offset by improved margins

from our tax loan products, such as Refund Anticipation Checks and Refund Anticipation Loans, and our digital tax products. At the same time, a weaker than expected finish to the tax season, increases in stock-based and other compensation expenses, as well as nonrecurring, one-time items associated with our Peace of Mind product impacted our margins. We have a keen internal focus on managing controllable expenses and expect to absorb the cost of future investments within our current operating margins.

Q How do you differentiate H&R Block in an increasingly competitive environment?

A We differentiate H&R Block by being our clients' advocate, helping them with both their tax *and* financial situations. We work on behalf of our clients to ensure they receive every tax credit and benefit they are entitled to. We help them take action to improve their tax and financial situation by giving each client a personalized H&R Block Advantage Report that offers specific information addressing their unique situation. We show our clients how to take advantage of the many government benefits programs available, and in some cases, we also distribute the program applications.

H&R Block helps our clients manage the financial issues in their lives by providing useful products and services that help them reach their goals. For example, we provide a convenient and easy savings tool with our Express IRA product. Clients can use part or all of their tax refund to open an IRA right in our office. We help our clients develop a long-term approach to their financial security that can fund their children's education or provide a secure retirement. And should our tax clients be interested in buying a home or refinancing their current home, we can help them obtain a mortgage that best fits their needs, while also helping them take advantage of the tax benefits that home ownership offers.

Q Do tax clients believe tax products and services are appropriately priced?

A It's important that our clients continue to see a strong linkage between price and value for our tax products and services. We believe we are increasing value for our clients by enhancing the advice and service we provide. In addition, we began carefully reviewing our pricing strategy in 2004 to ensure that our prices were appropriately aligned with the complexity of the client's tax situation and the value the client received. This review resulted in a mixture of price increases and decreases for our tax products and services.

Because we value our clients' opinions and want to maintain a superior price/value proposition, we conducted two surveys this year and last, asking clients, "Do you feel that you received a good value for the price you paid?" The clients giving us the highest rating possible increased 7.7 percent in 2004 and 11.9 percent in 2005, clearly indicating that our clients not only perceive a high price-to-value linkage, but believe they are increasingly receiving more value for their money.

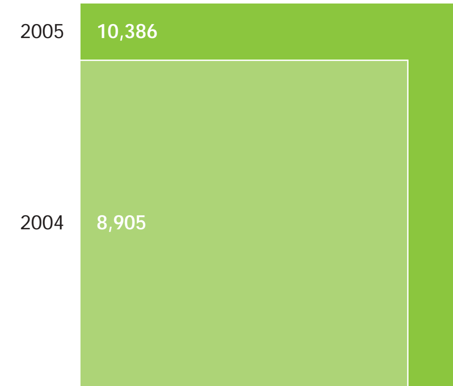
Q How do your online and software products fit into the larger, retail tax strategy?

A By offering digital tax products, we extend the H&R Block brand to those taxpayers who prefer to do their own returns. Our blended channel approach enables these clients, whether using our online or

Continued on page 13

STEVE NADON >>>
Chief Operating Officer,
Option One Mortgage

"H&R Block Mortgage's total loan origination volume increased 30 percent in fiscal year 2005 to $4 billion."

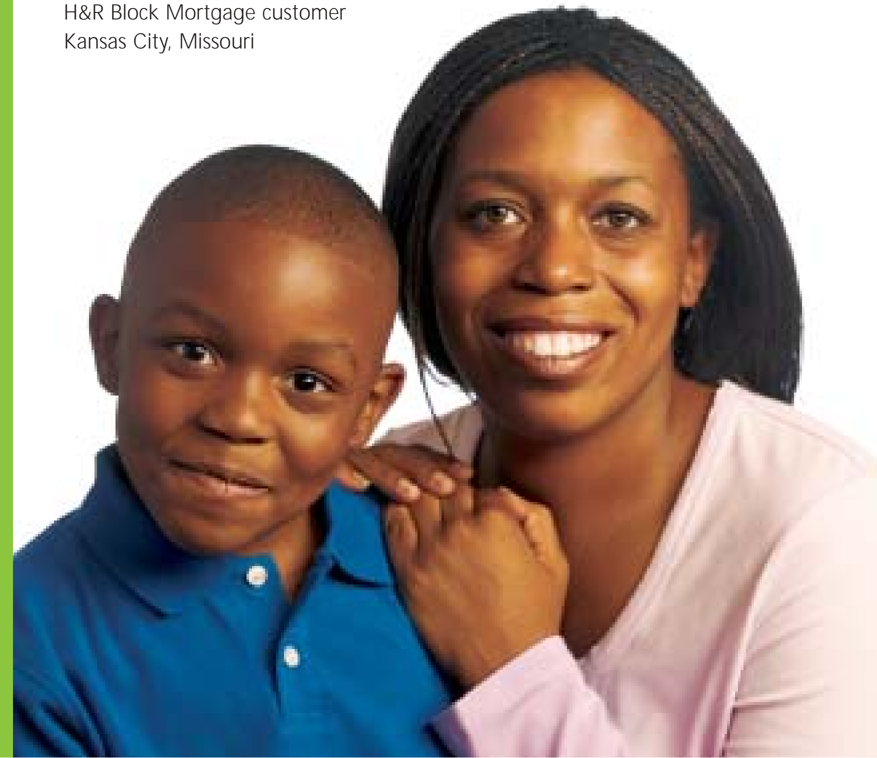


MORTGAGE LOANS MADE TO H&R BLOCK TAX CLIENTS

Year	Loans
2005	10,386
2004	8,905

CANDY WEDLOW >>> She believed she couldn't afford a home, but when Candy Wedlow heard that her landlord was raising her rent, she decided to turn to H&R Block Mortgage. A loan officer explained the tax and other advantages of home ownership. Candy not only bought her first home, but she reduced her monthly payment by $100. "I'm a single mother, and it was very important for me to move out of our apartment. Now, I have a house that I can afford, and my son has a yard to play in."

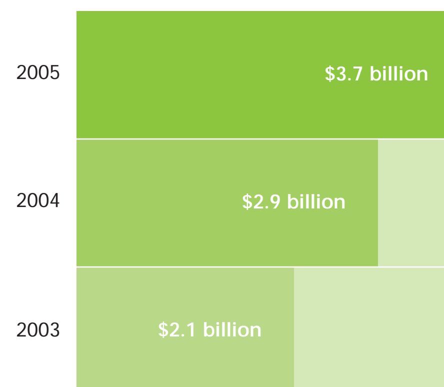
CANDY WEDLOW AND SON LAVONTE >>>
H&R Block Mortgage customer
Kansas City, Missouri



JOAN COHEN >>>
Executive Vice President,
H&R Block Financial Advisors

"We opened more than 18,000 new financial accounts this year as a result of client referrals from H&R Block tax professionals."

H&R BLOCK FINANCIAL ADVISORS AND TAX CLIENT ASSETS



Represents H&R Block Financial Advisor clients who were also H&R Block tax clients in the current or previous year.

JOANN BURNS >>> When Joann Burns' mother passed away, she turned to the one person her mother trusted with financial matters, Leslie Moss, her H&R Block tax professional. Moss called in Gary Kulik at H&R Block Financial Advisors, and together they developed a tax and financial plan that addressed Joann's short- and long-term financial needs while also limiting her tax liability. "There's no way I could have gotten through everything without their advice. I wanted to protect what was my mother's, and they went out of their way to help me do that."

JOANN BURNS >>>
H&R Block Financial Advisors client
St. Louis, Missouri

PERCENTAGE OF CLIENTS SURVEYED GIVING H&R BLOCK A PERFECT "10" SCORE

> Overall client satisfaction = 70%

> Overall satisfaction with tax professional = 76%

> Tax professional offered suggestions to improve your tax and financial situation = 82%

> Tax professional demonstrated expertise and tax knowledge = 71%

> Tax professional understood your needs = 71%

> Tax professional got you the maximum, allowable refund = 72%

software products, to get personal assistance from one of our tax professionals, thus introducing them to the experience and advocacy associated with our retail services. This creates a natural migration for taxpayers using do-it-yourself solutions, to those who need a tax professional to complete their return because their tax situations have become more complex.

Q What's being done to increase the number of tax clients who become mortgage customers? Is this business meeting your expectations?

A We're using a mix of training, technology and relationship-building programs to continue to increase the percentage of tax clients who have access to our mortgage services. Our loan consultants work closely with tax professionals to best meet our clients' overall financial needs, and they recognize that serving clients well is a win-win situation for everyone. Our data show that tax clients who also receive a loan through H&R Block Mortgage are 9.4 percent more likely to be a return tax client the next year.

H&R Block Mortgage has been able to leverage the strength of the H&R Block brand and the expertise of Option One Mortgage to get it off to a strong start. While our growth has exceeded expectations, it's been carefully managed to ensure we're growing strategically as well. In fact, a recent Gallup survey ranked H&R Block Mortgage in the "World Class" level, indicating there was a great deal of respect between our clients and the company, and more importantly, that our clients had a very strong attachment to our mortgage products and services.

Q What sets H&R Block Mortgage apart from other providers?

A The largest investment most people make is their home, and it's often their largest tax deduction too. We have the unique ability to provide our clients with tax, mortgage and financial assistance when making home-buying or refinancing decisions, thus helping them make informed choices and smart investments that provide the greatest benefit in the long run. Because many of our clients were referred by their H&R Block tax professional, they've already developed a strong, trusting relationship with the company and know they can expect exceptional service from our loan consultants.

Q H&R Block Financial Advisors wants to help tax clients with their broader financial needs — what progress did you make toward this objective?

A In the second year of our formal partnership program that pairs tax professionals with financial advisors, we more than doubled our number of tax partners who sent leads to financial advisors. Through the end of April this year, these tax professional/financial advisor partnerships resulted in more than 100,000 direct referrals to H&R Block Financial Advisors, an increase of more than 80 percent in the number of referrals from the previous year. These partnerships represent a significant opportunity for our business because they are a critical first step to providing financial services that meet our tax clients' needs.

Q What is being done to make H&R Block Financial Advisors profitable?

A We've taken a number of actions to better align the cost structure of this business with its revenues. We implemented a number of expense control measures and reduced our back office staff. We're continuing to increase both the scale and effectiveness of our financial advisor base, focusing on recruiting experienced, high-producing advisors. Through technology, we've made it easier for our tax professionals and financial advisors to work together, which will enhance our advisors' productivity and better enable them to deliver the advice-based financial services our clients need. We'll watch the business closely during fiscal 2006, making further adjustments as needed.

RSM McGladrey Serves the Needs of Midsized Businesses.

BUSINESS GROWTH

	2003	2004	2005
Chargeable Hours (In Thousands)	2,584	2,598	2,898
Chargeable Hours Per Person	1,388	1,414	1,430
Net Billed Rate Per Hour	$120	$124	$133
Average Margin Per Person	$97,117	$102,496	$112,573

STEVE TAIT >>>
President, RSM McGladrey Business Services

"Our clients are realizing the benefits of working with RSM McGladrey as a provider that can serve a broad range of their business service needs, making this our most successful year ever."

Building Scale in 2005 >>>

Q Some of your competitors are pursuing large businesses as clients, rather than focusing solely on midsized companies. Will you adjust your strategy and do likewise?

A Our intent is to remain focused on the midsized company marketplace, where we continue to see dramatic growth and potential. Our goal is to become the advocate for midsized organizations, which represent the most dynamic segment of the global economy.

We are uniquely positioned to fulfill this role. We already have significant depth and expertise serving this segment and intend to continue to consolidate and strengthen our position. We have a truly differentiated value proposition, which sets us apart from our competition and allows us to deliver the broadest set of services to our clients.

Q Since 1999, RSM McGladrey has entered into new business ventures. How are these business ventures doing?

A Our emerging businesses represent a true differentiator for RSM McGladrey — establishing us as a comprehensive source for midsized businesses and their owners needing financially focused business services. Most of these businesses provide annuity-type revenue that offsets the seasonal swings we experience in certain tax and accounting services.

RSM McGladrey Wealth Management grew by more than $500 million in new assets under management during the last fiscal year. Our wealth advisors manage an average of $68 million in assets. Our RSM McGladrey client base has billions of dollars in investable assets, so there's tremendous potential for growth.

RSM McGladrey Employer Services also enjoyed a good year. The recent acquisition of Ceridian SourceWeb expanded our client base and established a "world-class" operating platform. We expect significant, continued growth in human resources outsourcing during the upcoming year. This business is properly scaled and ready to deliver value.

RSM McGladrey Financial Process Outsourcing is fast making a name for itself in the outsourcing marketplace. This business has pioneered the use of offshore labor for its retail franchise clients — especially those with multiple locations. Last year, RSM McGladrey Financial Process Outsourcing doubled its revenues, with much of that growth coming from restaurant clients. The company now ranks as the nation's top financial outsourcer for auto parts and independent grocery stores.

RSM McGladrey Retirement Resources spent the past 12 months streamlining its operations, increasing its sales force and developing a new 401(k) bundled product scheduled for release this year. With increased marketing and sales activity, coupled with new product offerings, we expect this business to improve its results.

RSM EquiCo's capital market business posted a solid performance for the third consecutive year, increasing the value of its transactions and doubling fees earned. We are currently focused on improving our business model, driving more value to our clients.

Q Your core tax and accounting services grew double digits this year. What's driving this?

A Our focus on middle-market clients is paying off. With the industry-wide demand for services related to the Sarbanes-Oxley Act of 2002 (SOX), many middle-market businesses are looking for a firm that will be a more active partner focused on their unique needs.

At the same time, we know that the unique market environment won't last forever. We're building

MEETING THE NEEDS OF MIDSIZED BUSINESSES

- > RSM McGladrey – Accounting, tax and consulting services
- > RSM McGladrey Wealth Management – Financial, estate and gift tax planning, investment and insurance advisory services
- > RSM McGladrey Employer Services – Employee benefits and payroll outsourcing
- > RSM McGladrey Financial Process Outsourcing – Accounting and tax outsourcing for franchise business owners
- > RSM McGladrey Retirement Resources – Retirement plans administration and related services
- > RSM EquiCo – Mergers and acquisitions and investment banking

business development capabilities that have begun to create growth in our core services, and we believe these capabilities will help sustain growth even if the environment changes.

Q You've experienced tremendous growth with risk management revenue up more than 200 percent. How much of this is due to businesses responding to Sarbanes-Oxley requirements that may be "one-time only" work?

A The impact of SOX on risk management isn't going away. And while helping businesses meet short-term compliance requirements accounts for half of our risk management projects, we're quickly transforming our SOX business to annuity-based internal audit services, which is really the essence of our long-term risk management strategy.

Compared to our competitors, we're in a good position to meet the risk management needs of midsized companies. We bring a deep knowledge of the financial controls required by SOX and strong information technology and internal audit professionals who understand IT security and controls. Our work often uncovers deficiencies in existing systems, resulting in additional opportunities for business advisory and consulting services.

Not only has SOX resulted in more risk management work, most of our SOX projects during the past year were for first-time clients who more closely match our targeted client profile.

Q While H&R Block's brand is a household name in the consumer marketplace, RSM McGladrey's brand doesn't enjoy as much recognition in the business-to-business market. What are you doing to address that?

A RSM McGladrey consistently ranks as one of the top accounting, tax and business consulting organizations, right after the Big Four. During the past year, through the development and launch of innovative awareness-building strategies, we achieved significant success in building brand awareness among midsized business owners. We logged 2.5 million "touch points" within our targeted market and increased total awareness by 56 percent.

We linked all of the RSM McGladrey businesses through integrated communication vehicles to seamlessly present our unique value proposition and to increase focused awareness of our broad-based service offerings.

The centerpiece is our new monthly newsletter, *RSM McGladrey Advantage*, sent to more than 65,000 CEOs and CFOs of midsized businesses. This publication, together with a targeted campaign, provides an opportunity for the marketplace to obtain timely, relevant information that affects its businesses, and in turn, introduces RSM McGladrey's capabilities.

Q Your industry is experiencing a shortage of accountants, with a projected need for more than 40,000 accountants by the year 2012. What is your business doing to attract and retain top people?

A In a labor-intensive business such as ours, we're employing both an offensive and defensive strategy to attract and retain the best and brightest talent.

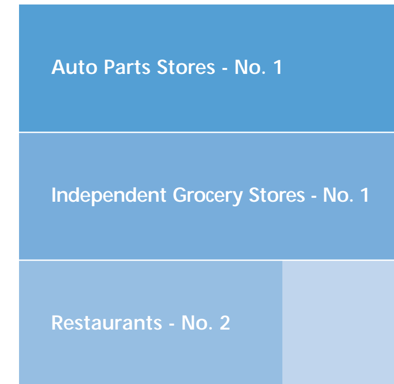
On the offensive side, we've stepped up our campus recruiting by targeting the best accounting universities nationwide. This summer we'll have more than 250 college recruits joining our organization. We've utilized the Internet, search firms and employee referrals to recruit 750 experienced hires during the past year.

Our defensive strategy is the creation of a work culture that listens and responds to the needs of our people. Demonstrating that we value our people will give us a competitive edge for attracting and retaining the best talent.

SABRY HEAKAL >>>
Chief Operating Officer,
Emerging Businesses,
RSM McGladrey

"Our emerging businesses are important building blocks in enabling RSM McGladrey to become the premier provider of financially focused business services to midsized companies."

FINANCIAL PROCESS OUTSOURCING



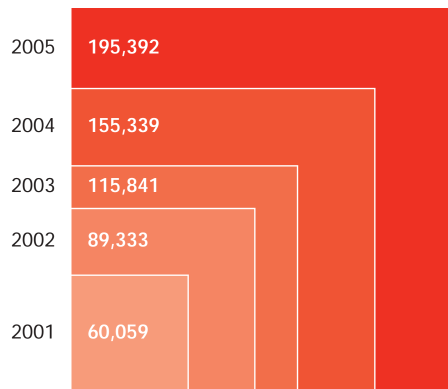
RSM McGladrey Financial Process Outsourcing ranks high in providing accounting services to these business sectors.

LISA SCHABLOSKI >>> As CFO of Sandvick Equipment & Supply Co., Lisa Schabloski relies on RSM McGladrey to help navigate business challenges. Whether it's developing a meaningful compensation program, addressing tax situations faced by multi-state operations, or managing payroll, RSM McGladrey brings creative, thoughtful business solutions to Sandvick. "Over the years, the RSM McGladrey team has been the first place we go when we need an objective opinion. Besides being great people to work with, I've found there isn't a financial problem that's too big or difficult for them."

LISA SCHABLOSKI >>>
RSM McGladrey client
Phoenix, Arizona

Option One Manages a Changing Market While Providing Superior Service.

MORTGAGE LOANS FUNDED



BOB DUBRISH >>>
President and
Chief Executive Officer,
Option One Mortgage

"2005 was a competitive year in the mortgage business. Our strategy of differentiating Option One through exceptional service, along with our focus on lowering our costs and improving efficiencies, has positioned us well for the future."

FAIR LENDING BEST PRACTICES

Our open and fair approach to lending helps people achieve the dream of home ownership or use their home equity to improve their lives.

> We make loans only when there is a benefit to the borrower.

> We lend to all borrowers who qualify, and we comply fully with the Real Estate Settlement Procedures Act, the Truth in Lending Act, the Fair Credit Reporting Act, the Fair Housing Act and the Equal Credit Opportunity Act.

> We offer customers the lowest interest rate and best product they qualify for in the channel in which they apply.

> We do not offer loans that contain single premium credit insurance, or loans defined as high-cost mortgages under federal or state laws.

> We always consider the borrower's ability to repay the loan.

> We allow borrowers the choice of a loan with or without a prepayment penalty. Loans with prepayment penalties come with a lower rate and/or fee.

> We encourage our customers to apply for escrow accounts.

> We make every attempt to keep customers in their homes. Foreclosure is a last option, used only when other alternatives have been exhausted.

Positioning for the Future >>>

Q The mortgage lending environment changed dramatically this year. What is Option One doing to maintain its position?

A Today's more competitive landscape has inspired us to find better, more creative ways to serve our customers and manage costs.

This year, we lowered our cost of origination while increasing our loan production 33 percent to $31 billion. We achieved these results while still investing in technology, infrastructure and marketing. We can continue to lower costs by leveraging technology. And by realigning our business to focus on sales and production, we can take advantage of standardized processes and capture additional savings.

Although the way we originate loans is personalized to each customer, how we set up, underwrite and close the loans is similar. We are streamlining those processes to drive our costs lower, and as we continue to improve our processes, we can be even more competitive — and that becomes an advantage for us in the market. We're well positioned and have the momentum to meet the challenges of a changing mortgage lending environment.

Q Why did Option One increase its account executives in light of a more competitive market?

A Increasing the number of account executives was integral to achieving record loan volumes, as we did in the fourth quarter. Our new sales associates have allowed us to enter markets that are currently not served or underserved. They also enabled us to increase by more than 2,000 the number of active mortgage brokers who work with Option One.

Our sales force is one of the most experienced and knowledgeable in the industry, which is a key reason loan originators choose to work with a particular lender. Option One ranks high in other areas, too, such as providing reliable preapprovals and dependable turn times, and responding promptly to broker inquiries. Because our turnover is low, our sales force builds on that knowledge each year, maintaining our high levels of service even as we add new sales associates.

Q Why did you increase the number of active mortgage brokers licensed to work with Option One?

A In the wholesale business, mortgage brokers are our customers. By establishing new and profitable relationships with brokers who appreciate our relationship-based approach, we're able to grow our business. Our goal is to increase our broker base and the amount of business we do with them.

Q What do you mean when you say Option One wants to be the "high-tech, high-touch" provider of mortgage products and services?

A We see high-tech and high-touch going hand in hand. Being high-tech means we can offer online access to loan prequalification and automated underwriting tools to provide loans faster and more efficiently. At the same time, those efficiencies streamline our processes and free our associates to spend more time with our customers in a consultative role. Such customer focus has fueled our growth and is the key to our success. Our future lies in integrating technology smoothly, while maintaining our reputation as the industry's "high-touch" lender.

Q Does potential volatility in secondary markets worry you?

A Option One is well prepared for many secondary market scenarios. Our preparation starts with an experienced leadership team, which proved they could manage deftly through the market volatility of the 1990s. If we were to face a market of lower investor demand, we could continue to fund loans because we maintain warehouse credit facilities of three to four times' monthly production. We also meet regularly

with many of our investors, including the two largest — Fannie Mae and Freddie Mac — to maintain our strong liquidity position. Additionally, our ability to sell our mortgages as whole loans or securities provides us with increased flexibility and liquidity in difficult times.

Although we recognize there may be periodic market disruptions, we don't think it's realistic to think the secondary market would simply stop buying loans. In fact, the asset-backed securities market has experienced tremendous growth, with non-prime mortgage loans now making up $400 billion, or approximately 47 percent, of the total market. While investors always seek quality companies, it becomes a higher priority in more challenging markets, which is a plus for companies like Option One that have a long and consistent track record of doing the right thing.

Q How have you ensured your continued financial health if more borrowers become unable to repay their loans?

A When we securitize or sell loans to investors, we keep only the residuals and the right to service those mortgages on our balance sheet. So our financial risk becomes limited to that extent. Investors know our servicing team is one of the industry's best, which is a key reason why they often put a premium on our loans.

This division is very focused on working with borrowers to find solutions to keep them in their homes. Option One also has received the highest non-prime servicer ratings from Standard & Poor's, Moody's Investors Service and Fitch Ratings. These independent rating agencies base their ratings on loan performance, quality and service of operations, and the experience of the management team. While we can never predict the future, if a worst-case scenario developed and more borrowers became unable to repay their loans, we are confident that we have appropriate staffing and the expertise to manage the issue.

Q What differentiates the Option One brand from other non-prime residential lenders?

A We initiated a brand campaign last year, which included new advertising and a new tagline — "One Gets It Done." Our strength, and what differentiates us from other mortgage lenders, is our reputation for service. That reputation is based on our core values and embodied by the people who work for us. We empower our people to do what's necessary to deliver superior customer service and create a level of trust, which is why our customers know we'll deliver on our promise. We don't want to simply meet expectations — we aim much higher.

By surveying our clients twice a year, we are able to identify where our service excelled and where we can improve. This client feedback ensures that we continue to deliver on our brand promise of being a company that loan originators can trust to get the job done.

Q What new opportunities do you see in the future for Option One?

A Entering new markets and developing innovative new products present opportunities for us to grow originations. As we expand our current product menu, we can meet the needs of a broader range of customers than we were previously able to serve. We're also identifying ways to deliver loans better and faster to meet the needs of our customers. For example, being able to offer our products to customers who are comfortable doing business online is an untapped and growing area of opportunity for us.

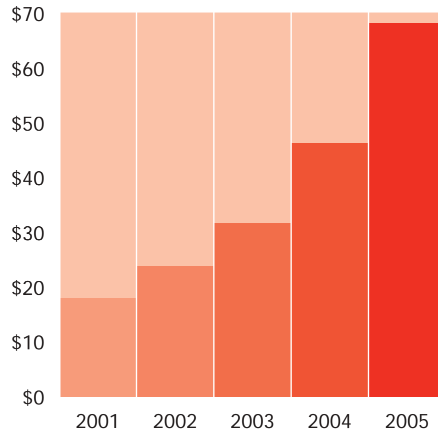
And as demographics change, we have opportunities to serve the needs of new, or emerging, groups of customers who want to participate in the dream of home ownership, although they may not meet the guidelines of traditional lenders. As we broaden our portfolio of products, services and methods of delivery, we can meet the needs of more diverse customers and capture new opportunities to grow our business.

BROKER PREFERENCES

Option One consistently received a top five score from mortgage brokers rating the characteristics most valued in lenders:

- Sales representative returns phone calls
- Reliable preapprovals
- Dependable turn times
- Knowledgeable sales representatives

Survey conducted by Campbell Communications and sponsored by Inside Mortgage Finance Publications.



The servicing portfolio reached $68 billion in 2005, a $23 billion increase over the prior fiscal year. The five-year, year-over-year growth was 39 percent.

FABIOLA CAMPERI >>>
Chief Servicing Officer,
Option One Mortgage

"For four consecutive years, Option One has achieved the top rating for non-prime servicers from Standard & Poor's, Moody's and Fitch."

RUTHE MONTGOMERY >>>
Option One customer
Irvine, California

RUTHE MONTGOMERY >>> Because she's worked in the customer service industry 25 years, Ruthe Montgomery knows good service. When Option One began servicing Ruthe's home loan, the company had to live up to pretty high standards. Ruthe's assessment? "I never want my loan to leave Option One! Of all the places that have serviced my loan, and there have been many, Option One has been the best by far. They truly deliver customer service excellence."

BOARD OF DIRECTORS

MARK A. ERNST
Chairman, President
and Chief Executive Officer
H&R Block, Inc.
Kansas City, Missouri

Committees 3, 4

G. KENNETH BAUM
Chairman of the Board
George K. Baum Group, Inc.
Kansas City, Missouri

Committees 3, 4, 5*

THOMAS M. BLOCH
Educator
Kansas City, Missouri

Committee 4

DONNA R. ECTON
Chairman, President
and Chief Executive Officer
EEI, Inc.
Paradise Valley, Arizona

Committees 2*, 3, 4, 5

HENRY F. FRIGON
Chairman of the Board
CARSTAR, Inc.
Overland Park, Kansas

Committees 1, 2, 3, 4*

ROGER W. HALE
Retired Chairman
and Chief Executive Officer
LG&E Energy Corp.
Louisville, Kentucky

Committees 1, 2, 3*, 5

DAVID BAKER LEWIS
Chairman of the Board
Lewis & Munday
Detroit, Michigan

Committee 1

TOM D. SEIP
Private Investor
Saint Michaels, Maryland

Committees 2, 5

LOUIS W. SMITH
Retired President
and Chief Executive Officer
Ewing Marion Kauffman Foundation
Kansas City, Missouri

Committees 1*, 2, 3

RAY WILKINS JR.
Group President,
SBC Marketing and Sales
SBC Communications, Inc.
San Antonio, Texas

Committees 1, 4, 5

Footnotes indicate Board Committees, Asterisks indicate Committee Chairpersons.
1. Audit Committee 2. Compensation Committee 3. Executive Committee 4. Finance Committee 5. Governance and Nominating Committee

EXECUTIVE OFFICERS

MARK A. ERNST >>>
Chairman, President and Chief Executive Officer

JEFFERY W. YABUKI >>>
Executive Vice President and Chief Operating Officer

WILLIAM L. TRUBECK >>>
Executive Vice President and Chief Financial Officer

TIMOTHY C. GOKEY >>>
President, H&R Block Tax Services Inc.

ROBERT E. DUBRISH >>>
President and Chief Executive Officer, Option One Mortgage Corp.

STEVEN TAIT >>>
President, RSM McGladrey Business Services Inc.

JOAN COHEN >>>
Executive Vice President, H&R Block Financial Advisors Inc.

BRAD C. IVERSEN >>>
Senior Vice President and Chief Marketing Officer

TAMMY S. SERATI >>>
Senior Vice President, Human Resources

NICHOLAS J. SPAETH >>>
Senior Vice President and Chief Legal Officer

MARC WEST >>>
Senior Vice President and Chief Information Officer

FIVE YEARS IN REVIEW

Amounts in thousands, except offices and number of loans originated

Year Ended April 30	2005	2004	2003	2002	2001
FEE AND CLIENT DATA >>>					
Tax preparation and related fees:					
United States	**$ 1,630,258**	$ 1,511,070	$ 1,369,666	$ 1,340,895	$ 1,204,844
Canada	**61,179**	54,892	49,927	47,911	48,818
Australia	**26,771**	23,077	17,806	15,231	15,097
Other	**659**	400	436	397	956
	$ 1,718,867	$ 1,589,439	$ 1,437,835	$ 1,404,434	$ 1,269,715
Clients served:					
United States[1]	**16,036**	16,087	16,593	17,217	16,937
Canada	**1,788**	1,734	1,722	1,721	1,752
Australia	**545**	519	505	489	486
	18,369	18,340	18,820	19,427	19,175
NUMBER OF TAX OFFICES >>>					
By country:					
United States	**11,161**	9,909	9,357	9,068	9,133
Canada	**912**	891	910	955	944
Australia	**378**	378	362	362	350
Other	**10**	67	66	56	23
	12,461	11,635	10,391	10,450	10,614
By type:					
Company-owned	**7,909**	6,942	6,045	5,794	5,827
Franchised	**4,552**	4,243	4,590	4,597	4,623
	12,461	10,635	10,391	10,450	10,614
MORTGAGE DATA >>>					
Number of loans originated:					
Wholesale	**166,447**	130,356	93,497	74,208	49,805
Retail	**28,945**	24,983	22,344	15,125	10,254
Total	**195,392**	155,339	115,841	89,333	60,059
Volume of loans originated:					
Wholesale	**$ 26,977,810**	$ 20,150,992	$ 13,659,243	$ 9,457,331	$ 5,289,715
Retail	**4,023,914**	3,105,021	2,918,378	1,995,842	1,235,186
Total	**$ 31,001,724**	$ 23,256,013	$ 16,577,621	$ 11,453,173	$ 6,524,901
Loan sales	**$ 30,975,761**	$ 23,234,935	$ 17,225,774	$ 11,440,190	$ 6,009,544

[1] Includes returns filed electronically.

H&R BLOCK®

4400 Main Street
Kansas City, Missouri 64111

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
TO BE HELD SEPTEMBER 7, 2005

The annual meeting of shareholders of H&R Block, Inc., a Missouri corporation (the "Company"), will be held in the H&R Block City Stage Theater at Union Station located at 30 West Pershing (corner of Pershing and Main Street), Kansas City, Missouri, on Wednesday, September 7, 2005 at 9:00 a.m., Kansas City time (CDT). Shareholders attending the meeting are asked to park in The Yards Parking Lot located on the west side of Union Station. The meeting will be held for the following purposes:

1. The election of four Class I directors (nominees are Thomas M. Bloch, Mark A. Ernst, David Baker Lewis and Tom D. Seip) to serve until the 2008 annual meeting and until their successors are elected and qualified (See page 3);

2. The approval of the H&R Block Executive Performance Plan, as amended (See page 10);

3. The ratification of the appointment of KPMG LLP as the Company's independent accountants for the fiscal year ending April 30, 2006 (See page 12); and

4. The transaction of any other business as may properly come before the meeting or any adjournments thereof.

The Board of Directors has fixed the close of business on July 5, 2005 as the record date for determining shareholders of the Company entitled to notice of and to vote at the meeting.

By Order of the Board of Directors
BRET G. WILSON
Secretary

Kansas City, Missouri
August 12, 2005

A proxy for the annual meeting is enclosed. Even though you may plan to attend the meeting in person, please promptly vote by telephone or Internet or by completing the enclosed proxy card and returning it in the enclosed postage-paid envelope. Telephone and Internet voting information is provided on the proxy card. If you are present at the meeting and desire to vote in person, your vote by proxy will not be used.

H&R BLOCK, INC.
PROXY STATEMENT
FOR THE 2005 ANNUAL MEETING OF SHAREHOLDERS

QUESTIONS AND ANSWERS ABOUT THE ANNUAL MEETING AND VOTING

The Board of Directors (the "Board of Directors" or "Board") of H&R Block, Inc., a Missouri corporation ("H&R Block" or the "Company") solicits the enclosed proxy for use at the annual meeting of shareholders of the Company to be held at 9:00 a.m. (CDT), on Wednesday, September 7, 2005 in the H&R Block City Stage Theater at Union Station located at 30 West Pershing (corner of Pershing and Main Street), Kansas City, Missouri. This Proxy Statement contains information about the matters to be voted on at the meeting and the voting process, as well as information about our directors and executive officers.

WHY DID I RECEIVE THIS PROXY STATEMENT?

The Board of Directors is soliciting your proxy to vote at the annual meeting because you are a shareholder at the close of business on July 5, 2005, the record date, and are entitled to vote at the meeting. This proxy statement, the proxy card and Annual Report to Shareholders for the fiscal year ended April 30, 2005 are being made available to shareholders beginning on or about August 12, 2005. This proxy statement summarizes the information you need to know to vote at the annual meeting. You do not need to attend the annual meeting to vote your shares.

WHAT AM I VOTING ON?

You are voting on three items of business at the annual meeting:

- The election of four Class I directors (nominees are Thomas M. Bloch, Mark A. Ernst, David Baker Lewis and Tom D. Seip) to serve until the 2008 annual meeting and until their successors are elected and qualified;
- The approval of the H&R Block Executive Performance Plan, as amended; and
- The ratification of KPMG LLP as independent accountants for the fiscal year ending April 30, 2006.

WHO IS ENTITLED TO VOTE?

Shareholders of record as of the close of business on July 5, 2005 are entitled to vote at the annual meeting. Each share of H&R Block Common Stock is entitled to one vote.

WHAT ARE THE VOTING RECOMMENDATIONS OF THE BOARD OF DIRECTORS?

Our Board of Directors recommends that you vote your shares "FOR" each of the Class I nominees named in this proxy standing for election to the Board, "FOR" the approval of the H&R Block Executive Performance Plan, as amended and "FOR" the ratification of KPMG LLP as our independent accountants.

HOW DO I VOTE?

If you are a shareholder of record, there are four ways to vote:

- by toll-free telephone at 1-800-435-6710 and following the instructions on the proxy card;
- by Internet at http://www.eproxy.com/hrb/ and following the instructions on the proxy card;
- by completing and mailing your proxy card; and
- by written ballot at the annual meeting.

If you vote by Internet or telephone, your vote must be received before 11:59 p.m. (ET) on the day before the annual meeting. Your shares will be voted as you indicate. If you do not indicate your voting preferences, the appointed proxies (Louis W. Smith, Rayford Wilkins, Jr., and Henry F. Frigon) will vote your shares FOR items 1, 2 and 3. If your shares are owned in joint names, all joint owners must vote by the same method and if joint owners vote by mail, all of the joint owners must sign the proxy card.

If your shares are held in a brokerage account in your broker's name (this is called street name), you should follow the voting directions provided by your broker or nominee. You may complete and mail a voting instruction card to your broker or nominee or, in most cases, submit voting instructions by telephone or the Internet to your broker or nominee. If you provide specific voting instructions by mail, telephone, or the Internet, your broker or nominee should vote your shares as you have directed.

We will pass out written ballots to anyone who wants to vote at the annual meeting. If you hold your shares in street name, you must request a legal proxy from your broker or other nominee to vote at the annual meeting. It is important that your shares are represented at the meeting, whether or not you attend the meeting in person. To make sure that your shares are represented, we urge you to vote as soon as possible by Internet, telephone or mail by following the instructions in this proxy statement.

WHAT IS THE DIFFERENCE BETWEEN HOLDING SHARES AS A SHAREHOLDER OF RECORD AND AS A BENEFICIAL OWNER?

If your shares are registered directly in your name with the Company's transfer agent, Mellon Investor Services LLC ("Mellon Investor Services") you are considered, with respect to those shares, the "shareholder of record." The proxy statement, annual report and proxy card have been made available directly to shareholders of record by the Company.

If your shares are held in a stock brokerage account or by a bank or other nominee, you are considered the "beneficial owner" of shares held in street name. The proxy materials should be forwarded to you by your broker, bank or nominee who is considered, with respect to those shares, the shareholder of record. As the beneficial holder, you have the right to direct your broker, bank or nominee how to vote and are also invited to attend the annual meeting. However, since you are not a shareholder of record, you may not vote these shares in person at the annual meeting unless you bring with you a legal proxy from the shareholder of record. Your broker or nominee has enclosed a voting instruction card for you to use in directing the broker, bank or other nominee how to vote your shares.

WHAT ARE BROKER NON-VOTES AND HOW ARE THEY COUNTED?

Broker non-votes occur when nominees, such as brokers and banks holding shares on behalf of the beneficial owners, are prohibited from exercising discretionary voting authority for beneficial owners who have not provided voting instructions at least ten days before the annual meeting date. If no instructions are given within that time frame, the nominees may vote those shares on matters deemed "routine" by the New York Stock Exchange. On non-routine matters, nominees cannot vote without instructions from the beneficial owner, resulting in so-called "broker non-votes." Broker non-votes are not counted for the purposes of determining the number of shares present in person or represented by proxy on a voting matter.

CAN I CHANGE MY VOTE?

If you are a shareholder of record, you may revoke your proxy at any time before it is voted at the annual meeting by:

- sending written notice of revocation to the Secretary of the Company;
- submitting a new, proper proxy by telephone, Internet or paper ballot, after the date of the revoked proxy; or
- attending the annual meeting and voting in person.

If you are a beneficial owner of shares, you may submit new voting instructions by contacting your broker, bank or other nominee. You may also vote in person at the annual meeting if you obtain legal proxy as described above.

WHAT VOTE IS REQUIRED TO APPROVE EACH PROPOSAL?

For all matters to be voted upon at the annual meeting, the affirmative vote of a majority of shares present in person or represented by proxy, and entitled to vote on the matter, is necessary for election or approval.

DO SHAREHOLDERS HAVE CUMULATIVE VOTING RIGHTS WITH RESPECT TO THE ELECTION OF DIRECTORS?

No. Shareholders do not have cumulative voting rights with respect to the election of directors.

WHAT CONSTITUTES A QUORUM?

As of the record date 167,247,961 shares of the Company's Common Stock were issued and outstanding. A majority of the outstanding shares entitled to vote at the annual meeting, represented in person or by proxy, shall constitute a quorum. Shares represented by a proxy that directs that the shares abstain from voting or that a vote be withheld on a matter shall be deemed to be represented at the annual meeting for quorum purposes. Shares represented by proxy as to which no voting instructions are given as to matters to be voted upon shall be deemed to be represented at the annual meeting for quorum purposes. The Board of Directors of the Company declared a two-for-one stock split effective August 22, 2005 for shareholders of record as of August 1, 2005. Because the effective date of the split is after the record date of the annual meeting of shareholders, the number of shares reported on the accompanying proxy and entitled to vote at the meeting is the pre-split number and such number is not adjusted to reflect the August 22, 2005 stock split.

WHO WILL COUNT THE VOTE?

Representatives of Mellon Investor Services, the Company's transfer agent, will count the vote and serve as the inspectors of election.

WHAT DOES IT MEAN IF I RECEIVE MORE THAN ONE PROXY CARD?

It means your shares are held in more than one account. You should vote all your proxy shares. To provide better shareholder service, we encourage you to have all your shares registered in the same name and address. You may do this by contacting our transfer agent, Mellon Investor Services, at 1-888-213-0964.

CAN I ACCESS THE PROXY STATEMENT AND ANNUAL REPORT ON THE INTERNET INSTEAD OF RECEIVING PAPER COPIES?

This proxy statement and 2005 Annual Report are located on the Company's website. Most shareholders can access future proxy statements and annual reports on the Internet instead of receiving paper copies in the mail. If you are a shareholder of record, you can choose this option by marking the appropriate box on your proxy card or by following the instructions if you vote by telephone or the Internet. If you choose to access future proxy statements and annual reports on the Internet, you will receive a proxy card in the mail next year with instructions containing the Internet address for those materials. Your choice will remain in effect until you advise us otherwise.

If you are a beneficial owner, please refer to the information provided by your broker, bank or nominee for instructions on how to access future proxy statements and annual reports on the Internet.

HOW MUCH DID THIS PROXY SOLICITATION COST?

The Company has retained Mellon Investor Services to assist in the solicitation of proxies on behalf of the Board of Directors for a fee of $9,500 plus reimbursement of reasonable expenses. Further, brokers and other custodians, nominees and fiduciaries will be requested to forward soliciting material to their principals and the Company will reimburse them for the expense of doing so.

WHAT IS THE COMPANY'S WEB ADDRESS?

The Company's home page is www.hrblock.com. The Company's filings with the Securities and Exchange Commission are available free of charge via a link from this address.

WILL ANY OTHER MATTERS BE VOTED ON?

As of the date of this proxy statement, our management knows of no other matter that will be presented for consideration at the meeting other than those matters discussed in this proxy statement. If any other matters properly come before the meeting and call for a vote of the shareholders, validly executed proxies in the enclosed form will be voted in accordance with the recommendation of the Board of Directors.

ITEM 1 ON FORM OF PROXY

ELECTION OF DIRECTORS >>>

The Company's Articles of Incorporation and Bylaws provide that the number of directors to constitute the Board of Directors shall not be fewer than nine nor more than 15, with the exact number to be fixed by a resolution adopted by the affirmative vote of a majority of the entire Board. Effective October 18, 2004, the Board fixed the number of directors to constitute the Board of Directors at ten. The Articles of Incorporation and Bylaws provide that the Board of Directors shall be divided into three classes: Class I, Class II and Class III, with each class to consist, as nearly as possible, of one-third of the members of the Board. There are currently four Class I directors, three Class II directors and three Class III directors. The term of office of one class of directors expires at each annual meeting of shareholders. Directors elected at an annual meeting of shareholders to succeed those whose terms expire are identified as being of the same class as those directors they succeed and are elected for a term to expire at the third annual meeting of shareholders after their election.

At the annual meeting of shareholders to be held on September 7, 2005, four Class I directors will be elected to hold office for three years and until their successors are elected and shall have qualified. Thomas M. Bloch, Mark A. Ernst, David Baker Lewis and Tom D. Seip have been nominated for election as Class I directors of the Company. The shares voted by proxy will be voted for the election of all four nominees unless authority to do so is withheld as provided in the form of proxy. All nominees are currently Class I directors of the Company and have consented to serve if elected. The Board of Directors has no reason to believe that any of the nominees will be unable to accept the office of director. If such contingency should arise, it is the intention of the proxies to vote for such person or persons as the Board of Directors may recommend.

The nominees for election as Class I directors, the current Class II directors and the current Class III directors are listed below. G. Kenneth Baum, Henry F. Frigon and Roger W. Hale serve as Class II directors with terms scheduled to expire at the annual meeting of shareholders in 2006. Mr. Baum will retire as a director at the 2005 annual meeting of shareholders pursuant to the Board's retirement policy. Donna R. Ecton, Louis W. Smith and Rayford Wilkins, Jr. serve as Class III directors with terms scheduled to expire at the annual meeting of shareholders in 2007. The number of shares of Common Stock beneficially owned by each director is listed under the heading "Security Ownership of Directors and Management" on page 23 of this proxy statement.

NOMINEES FOR ELECTION AT THIS MEETING TO A TERM EXPIRING IN 2008 (CLASS I DIRECTORS):

Thomas M. Bloch
Director since 2000
Age 51

Mr. Bloch has served since January 2000 as Vice Chairman of the University Academy, an urban college preparatory charter school that he co-founded in Kansas City, Missouri and as an educator with the University Academy since August 2000. Mr. Bloch served as an educator with St. Francis Xavier School from October 1995 until August 2000. Prior to changing careers, Mr. Bloch had a 19-year career with the H&R Block organization, resigning as President and Chief Executive Officer of the Company in 1995. Mr. Bloch graduated from Claremont McKenna College in Claremont, California in 1976. He is a member of the Finance Committee of the Board of Directors.

Mark A. Ernst
Director since 1999
Age 47

Mr. Ernst has served as Chairman of the Board of the Company since September 2002, Chief Executive Officer of the Company since January 2001 and as President of the Company since September 1999. He served as Chief Operating Officer of the Company from September 1998 through December 2000 and as Executive Vice President of the Company from September 1998 until September 1999. Prior to joining the Company, Mr. Ernst served as Senior Vice President, Third Party and International Distribution and Senior Vice President, Workplace Financial Services of American Express Company, a diversified financial services company, Minneapolis, Minnesota, from July 1997 through June 1998 and November 1995 through July 1997, respectively. Mr. Ernst is also a director of Great Plains Energy, Inc. and Knight-Ridder, Inc. He received a Master of Business Administration with an emphasis in finance and economics from the University of Chicago and an undergraduate degree in accounting and finance from Drake University. He is a Certified Public Accountant. Mr. Ernst is a member of the Finance and Executive Committees of the Board of Directors.

David Baker Lewis
Director since 2004
Age 54

Mr. Lewis is Chairman, President and Chief Executive Officer of Lewis & Munday, a Detroit-based law firm with offices in Washington, D.C. and Seattle. He is also a director of The Kroger Company and Lewis & Thompson Agency, Inc. Mr. Lewis has served on the Board of Directors of Conrail, Inc., LG&E Energy Corp., M.A. Hanna, TRW, Inc., and Comerica, Inc. He received a Bachelor of Arts degree from Oakland University, a Master of Business Administration from the University of Chicago and a Juris Doctor from the University of Michigan School of Law. Mr. Lewis is a member of the Audit Committee of the Board of Directors.

Tom D. Seip
Director since 2001
Age 55

Mr. Seip currently serves as managing partner of Seip Investments LP and the managing member of Too Much Stuff LLC and Ridgefield Farm LLC, private investment vehicles. He served as the President, Chief Executive Officer and director of Westaff, Inc., Walnut Creek, California, a temporary staffing services company, from May 2001 until January 2002. Mr. Seip was employed by Charles Schwab & Co., Inc., San Francisco, California, from January 1983 until June 1998 in various positions, including Chief Executive Officer of Charles Schwab Investment Management, Inc. from 1997 until June 1998 and Executive Vice President – Retail Brokerage from 1994 until 1997. Mr. Seip is also a trustee of the Neuberger Berman Mutual Funds, New York. He received a Bachelor of Arts degree from Pennsylvania State University and participated in the Doctoral Program in Developmental Psychology at the University of Michigan. Mr. Seip is a member of the Compensation and Governance and Nominating Committees of the Board of Directors.

CONTINUING DIRECTORS WHOSE TERMS EXPIRE IN 2006 (CLASS II DIRECTORS):

G. Kenneth Baum
Director since 1961
Age 75

Mr. Baum has served as the Chairman of George K. Baum Group, Inc., an investment company, Kansas City, Missouri, since April 1994. Mr. Baum joined the firm of George K. Baum & Company, a regional investment banking firm, in 1952 and was President of that organization from 1957 until 1982 when he was elected to Chairman of the Board, serving in that capacity until April 1994. Mr. Baum graduated from Carleton College, Northfield, Minnesota in 1952 with a Bachelor of Arts degree in history. He currently serves as a director of Interstate Bakeries Corporation. Mr. Baum is Chairman of the Governance and Nominating Committee of the Board of Directors and is a member of the Executive and Finance Committees. Mr. Baum will retire as a director at the 2005 annual meeting of shareholders pursuant to the Board's retirement policy.

Henry F. Frigon
Director since 1992
Age 70

Mr. Frigon currently serves as the Vice Chairman of the Board of CARSTAR, Inc., Overland Park, Kansas, and served as Chairman of the Board of CARSTAR from 1998 to May 2005. He served as Chief Executive Officer of CARSTAR, Inc. from July 1998 until February 2001. Mr. Frigon retired from Hallmark Cards, Inc., Kansas City, Missouri in 1994 where he served as Executive Vice President, Corporate Development & Strategy, and Chief Financial Officer, as well as being a member of its Board of Directors from 1990 until December 1994. Prior to joining Hallmark, Mr. Frigon served as the President and Chief Executive Officer of BATUS, Inc., where he was responsible for the company's extensive U.S. holdings in retailing, financial services, tobacco and paper. His previous business experience covers a variety of operating, management and board positions with companies such as Masco Corporation, General Housewares, General Foods Corporation and Chase Manhattan Bank. Mr. Frigon received a bachelor's degree in engineering from Tufts University in 1957 and a Master of Business Administration from New York University in 1961. He also attended Wharton Graduate School at the University of Pennsylvania and completed the Advanced Management Program at Harvard Business School. Mr. Frigon is also a director of Buckeye Technologies, Inc., Dimon, Inc., Packaging Corporation of America, Sypris Solutions, Inc. and Tuesday Morning Corporation. Mr. Frigon is Chairman of the Finance Committee of the Board of Directors and a member of the Audit, Compensation and Executive Committees.

Roger W. Hale
Director since 1991
Age 62

Mr. Hale served as Chairman and Chief Executive Officer of LG&E Energy Corporation, a diversified energy services company headquartered in Louisville, Kentucky, from August 1990 until retiring in April 2001. Prior to joining LG&E, he was Executive Vice President of BellSouth Corporation, a communications services company in Atlanta, Georgia. From 1966 to 1986, Mr. Hale held several executive positions with AT&T Co., a communications services company, including Vice President, Southern Region from 1983 to 1986. He received a Bachelor of Arts degree from the University of Maryland in 1965 and a Master of Science in Management from the Massachusetts Institute of Technology, Sloan School of Management in 1979. Mr. Hale is also a director of Ashland, Inc., where he serves as Chairman of the Audit Committee and is a member of the Public Policy and Environmental Committees. He has served as the Presiding Director of the Board of Directors since September 8, 2004 and is Chairman of the Executive Committee of Board of Directors and a member of the Audit, Compensation and Governance and Nominating Committees.

CONTINUING DIRECTORS WHOSE TERMS EXPIRE IN 2007 (CLASS III DIRECTORS):

Donna R. Ecton
Director since 1993
Age 58

Ms. Ecton is currently the Chairman and Chief Executive Officer of EEI Inc., a management consulting firm located in Paradise Valley, Arizona that she founded in 1998. Prior to forming EEI Inc., Ms. Ecton served as the Chief Operating Officer of PETsMART, Inc., Phoenix, Arizona, a retail supplier of products and services for pets, from December 1996 until May 1998 and on the Board of Directors of PETsMART, Inc., from 1994 until 1998. Prior to PETsMART, Ms. Ecton was Chairman, President and Chief Executive Officer of Business Mail Express, Inc., a privately held expedited printing and mailing business, and before that she served as President and Chief Executive Officer of Van Houten North America, Inc. and Andes Candies, Inc., a privately held international confectionary company. Ms. Ecton's previous business experience covers a variety of management positions with companies such as Nutri/System, Inc., Campbell Soup Company, Citibank, N.A. and Chemical Bank. She received a Bachelor of Arts in Economics from Wellesley College (Durant Scholar) in 1969 and a Master of Business Administration from the Harvard Graduate School of Business Administration in 1971. Ms. Ecton is Chairman of the Compensation Committee of the Board of Directors and a member of the Executive, Finance and Governance and Nominating Committees.

Louis W. Smith
Director since 1998
Age 62

Mr. Smith served as President and Chief Executive Officer of the Ewing Marion Kauffman Foundation, a charitable foundation, Kansas City, Missouri, from July 1997 until April 2002 and President and Chief Operating Officer of the Ewing Marion Kauffman Foundation from June 1995 to July 1997. He also served on the Board of Directors of such Foundation from January 1991 through September 2002. Prior to joining the Foundation, Mr. Smith had a 29-year career with AlliedSignal, Inc. (now Honeywell International), a diversified technology and manufacturing company, retiring as President of the Kansas City Division in 1995. Mr. Smith also serves on the Board of Directors of Sprint Corporation. He holds a bachelor's degree in electrical engineering from the University of Missouri-Rolla and a Master of Business Administration from the Executive Fellows Program at Rockhurst University. Mr. Smith is Chairman of the Audit Committee of the Board of Directors and is a member of the Compensation and Executive Committees.

Rayford Wilkins, Jr.
Director since 2000
Age 53

Mr. Wilkins has served as Group President, SBC Communications, Inc., San Antonio, Texas, a diversified telecommunications company and wireless communications provider, since May 2002. Previously he served as President and Chief Executive Officer of Pacific Bell Telephone Company and Nevada Bell Telephone Company, San Ramon, California, from September 2000 until April 2002 and as President of SBC Business Communications Services, San Antonio, Texas, from October 1999 through September 2000. Mr. Wilkins served as President and CEO of Southwestern Bell Telephone Co., San Antonio, Texas, from July 1999 until October 1999. He served as President of Business Communications Services, Pacific Bell Telephone Company, San Ramon, California, from August 1997 until July 1999. He also served as Vice President and General Manager of Southwestern Bell Telephone Co., Kansas City, Missouri, from August 1993 until August 1997. He earned a bachelor's degree in business administration from the University of Texas in Austin in 1974 and attended the University of Pittsburgh's Management Program for Executives in October 1987. Mr. Wilkins is a member of the Audit, Finance and Governance and Nominating Committees of the Board of Directors.

ADDITIONAL INFORMATION CONCERNING THE BOARD OF DIRECTORS

BOARD OF DIRECTORS' MEETINGS AND COMMITTEES >>>

The Board of Directors is responsible for managing the property and business affairs of the Company. The Board of Directors reviews significant developments affecting the Company and acts on matters requiring Board approval. During the 2005 fiscal year, the Board of Directors held seven meetings and the standing Board committees held 20 meetings. Each of the incumbent directors attended at least 75% of the aggregate of the total number of meetings of the Board of Directors and of committees of the Board of which he or she was a member, except for Mr. Frigon who attended a combined total of 74% of the meetings and Mr. Seip who attended a combined total of 73% of the meetings. Mr. Seip's absences arose primarily from a scheduling conflict with the March 2005 Board and committee meetings, during which the Board and two of the committees on which Mr. Seip serves met. Excluding this one scheduling conflict, Mr. Seip attended 92% of the aggregate total number of Board and applicable committee meetings. The Company has adjusted its schedule of regular Board meetings in fiscal year 2006 to eliminate this scheduling conflict.

The standing committees of the Board are the Executive Committee, the Audit Committee, the Compensation Committee, the Finance Committee and the Governance and Nominating Committee. The Company's Corporate Governance Guidelines, Code of Business Ethics and Conduct, Board of Director Independence Standards and charters for Audit, Compensation and Governance and Nominating Committees are available on the Company's website at www.hrblock.com under the tab "Our Company" and then under the heading "Block Investors" and then under "Corporate Governance." These documents are also available in print to shareholders upon written request to: Corporate Secretary, H&R Block, Inc., 4400 Main St., Kansas City, Missouri 64111. Set forth below is a description of the duties of each committee and its members.

The **Executive Committee,** whose members are Mr. Hale (Chairman), Ms. Ecton and Messrs. Baum, Ernst, Frigon and Smith, held no meetings during fiscal year 2005. The primary function of the Executive Committee is to control and manage, between meetings of the Board, the property and business of the Company in all matters in which exclusive authority has not been given to the entire Board of Directors or in which specific direction has not been given by the Board.

The **Audit Committee,** whose members are Mr. Smith (Chairman) and Messrs. Frigon, Hale, Lewis and Wilkins, held 11 meetings during the 2005 fiscal year. All of the members of the Audit Committee are independent under regulations adopted by the Securities and Exchange Commission, New York Stock Exchange listing standards and the Board's Director Independence Standards. The Board has determined that each of Mr. Smith, Mr. Frigon, Mr. Hale, Mr. Lewis and Mr. Wilkins is an audit committee financial expert, pursuant to the criteria prescribed by the Securities and Exchange Commission. The Board has also determined that Mr. Frigon's service on the audit committees of more than three public companies has not impaired and will not impair Mr. Frigon's ability to effectively serve on the Audit Committee. The functions of the Committee are described in the Audit Committee Charter and include making recommendations to the Board of Directors with respect to the appointment of the Company's independent accountants, evaluating the independence and performance of such accountants, reviewing the scope of the annual audit, and reviewing and discussing with management and the independent accountants the audited financial statements and accounting principles. See the "Audit Committee Report" beginning on page 12.

The **Compensation Committee,** whose members are Ms. Ecton (Chairman) and Messrs. Frigon, Hale, Seip and Smith, held three meetings during fiscal year 2005. The functions of the Committee primarily include reviewing the compensation of the executive officers of the Company and its subsidiaries, recommending to the Board of Directors the salaries and any bonus or cash incentive plans for such executive officers, and administering the Company's long-term incentive compensation plans. All of the members of the Compensation Committee are independent under the New York Stock Exchange listing standards and the Board's Director Independence Standards. See the "Compensation Committee Report on Executive Compensation" beginning on page 13.

The **Finance Committee,** whose members are Mr. Frigon (Chairman), Ms. Ecton and Messrs. Baum, Bloch, Ernst and Wilkins, held three meetings during the 2005 fiscal year. The primary duties of the Finance Committee are to provide advice to management and the Board of Directors concerning the financial structure of the Company, the funding of the operations of the Company and its subsidiaries, and the investment of Company funds.

The **Governance and Nominating Committee,** whose members are Mr. Baum (Chairman), Ms. Ecton and Messrs. Hale, Seip and Wilkins, held three meetings during the 2005 fiscal year. The Governance and Nominating Committee is responsible for corporate governance matters, the initiation of nominations for election as a director of the Company, the evaluation of the performance of the Board of Directors, and the determination of

compensation of outside directors of the Company. All of the members of the Governance and Nominating Committee are independent under the New York Stock Exchange listing standards and the Board's Director Independence Standards.

DIRECTOR'S COMPENSATION >>> Directors, excluding those who are employed by the Company or its subsidiaries, received an annual director's fee of $40,000, meeting fees of $2,000 for each Board meeting attended, committee chairman fees of $2,000 for each committee meeting that they chaired, and meeting fees of $1,200 for each committee meeting attended in a capacity other than as chairman. In addition, the chairman of the audit committee receives an annual committee chairman's fee of $5,000. Beginning with the quarterly installment payable on June 1, 2005, the Board approved an increase in the annual retainer for non-employee directors from $40,000 to $50,000 and the audit committee chair annual retainer was increased from $5,000 to $7,500. All other fees paid will remain the same.

In accordance with the provisions of the H&R Block Deferred Compensation Plan for Directors, as amended, eligible non-employee directors may defer receipt of their retainers and/or meeting fees. Deferrals are placed in an account maintained by the Company for each director and such deferrals are fully vested at all times. Gains or losses are posted to each account in accordance with the participant's selection among fixed rate, variable rate and Company Common Stock investment alternatives. Payment of benefits occurs in cash upon termination of the participant's service as a director or upon his or her death. The account balance is generally paid out in approximately equal monthly installments over a 10-year period after the occurrence of the event which results in the benefit distribution.

Pursuant to the H&R Block Stock Plan for Non-Employee Directors, eligible non-employee directors have the opportunity to receive payment of their retainers and/or meeting fees on a deferred basis in shares of Common Stock of the Company. The retainers and/or fees are initially paid in the form of stock units. The stock units in the directors' accounts are fully vested at all times. Payment of the stock units must be deferred at least one year after the year such units are credited and the director shall select the date of payment, which may be upon termination of service as a director. The maximum number of shares of Common Stock that may be issued under the Stock Plan is currently 600,000 shares.

The 1989 Stock Option Plan for Outside Directors, as amended, provides for the grant of stock options to directors of the Company who are not employees of the Company or any of its subsidiaries. The Plan specifies that nonqualified stock options are to be automatically granted to outside directors of the Company serving as such on June 30 of each year in which the Plan is in effect. Effective June 30, 2002, each stock option granted to an outside director of the Company pursuant to the Plan is for 4,000 shares of the Company's Common Stock, and the purchase price per share is equal to the last reported sale price for the Common Stock on the New York Stock Exchange on the date of grant. The maximum number of shares of Common Stock as to which options may be granted under the Plan is 800,000.

Options for 4,000 shares each, with an option price of $58.35 per share, were granted to Ms. Ecton and Messrs. Baum, Bloch, Frigon, Hale, Lewis, Seip, Smith and Wilkins on June 30, 2005. The options are fully vested and immediately exercisable as of date of grant. All outstanding options expire ten years after the date of grant.

The Company also offers to its non-employee directors free income tax return preparation services at an H&R Block office of their choice, a fifty percent discount on tax preparation services from RSM McGladrey, Inc. and free business travel insurance in connection with Company-related travel.

CORPORATE GOVERNANCE >>> Our Board of Directors operates under duly adopted Corporate Governance Guidelines (the "Guidelines") to assist the Board in exercising its responsibilities. The Guidelines reflect the Board's commitment to monitor the effectiveness of policy and decision-making both at the Board level and management level, with a view to enhancing shareholder value over the long term. The Guidelines also assure that the Board will have the necessary authority and practices in place to review and evaluate the Company's business operations as needed and to make decisions that are independent of the Company's management. The Guidelines are not intended to be a static statement of the Company's policies, principles and guidelines, but are subject to continual assessment and refinement as the Board may determine advisable or necessary in the view of the best interests of the Company and its shareholders.

The Guidelines also provide that a non-employee director may be appointed as the "Presiding Director" of the Board. The Presiding Director (Roger W. Hale) leads executive sessions of the non-employee directors at meetings that are held prior to each regular meeting of the Board. In addition, the Presiding Director may call executive sessions as deemed necessary.

As further described in the Guidelines, the Board believes that a substantial majority of the Board should consist of directors who are independent under the New York Stock Exchange listing standards. As described below, eight of the Board's ten directors are independent directors within the meaning of the Board's

Director Independence Standards and the New York Stock Exchange listing standards.

The New York Stock Exchange listing standards provide that a director does not qualify as independent unless the Board affirmatively determines that the director has no material relationship with the Company. The listing standards permit the Board to adopt and disclose standards to assist the Board in making determinations of independence. Accordingly, the Board has adopted Director Independence Standards (attached as *Appendix A* to this proxy statement) to assist the Board in determining whether a director has a material relationship with the Company.

In June 2005, the Board conducted an evaluation of director independence, based on the Director Independence Standards and the New York Stock Exchange listing standards. In connection with this review, the Board evaluated commercial, charitable, consulting, familial and other relationships with each director or immediate family members and their related interest to the Company and its subsidiaries. As a result of this evaluation, the Board affirmatively determined that Ms. Ecton and Messrs. Baum, Frigon, Hale, Lewis, Seip, Smith and Wilkins are independent directors.

Further, all directors, officers and employees of the Company must act ethically and in accordance with the policies comprising the H&R Block Code of Business Ethics and Conduct (the "Code"). The Code includes guidelines relating to the ethical handling of actual or potential conflicts of interest, compliance with laws, accurate financial reporting and procedures for promoting compliance with, and reporting violations of, the Code. The Company intends to post any amendments to or waivers of the Code (to the extent applicable to the Company's Chief Executive Officer, Chief Financial Officer or Principal Accounting Officer) on our website.

DIRECTOR NOMINATION PROCESS >>> The entire Board of Directors is responsible for nominating members for election to the Board and for filling vacancies on the Board that may occur between annual meetings of the shareholders. The Governance and Nominating Committee is responsible for identifying, screening and recommending candidates to the entire Board for Board membership. The Governance and Nominating Committee works with the Board to determine the appropriate characteristics, skills and experience for the Board as a whole and its individual members. In evaluating the suitability of individual Board members, the Board takes into account many factors such as general understanding of various business disciplines (e.g., marketing, finance, information technology), the Company's business environment, educational and professional background, analytical ability and willingness to devote adequate time to Board duties. The Board evaluates each individual in the context of the Board as a whole with the objective of retaining a group with diverse and relevant experience that can best perpetuate the Company's success and represent shareholder interests through sound judgment.

The Governance and Nominating Committee may seek the input of the other members of the Board and management in identifying candidates who are consistent with the criteria outlined above. In addition, the Governance and Nominating Committee may use the services of consultants or a search firm. The Committee will consider recommendations by the Company's shareholders of qualified director candidates for possible nomination by the Board. Shareholders may recommend qualified director candidates by writing to the Company's Corporate Secretary, at our offices at 4400 Main Street, Kansas City, Missouri 64111. Submissions should include information regarding a candidate's background, qualifications, experience, and willingness to serve as a director. Based on preliminary assessment of a candidate's qualifications, the Governance and Nominating Committee may conduct interviews with the candidate and request additional information from the candidate. The Committee uses the same process for evaluating all nominees, including those recommended by shareholders. In addition, the Company's bylaws contain specific conditions under which persons may be nominated directly by shareholders. The provisions include the condition that shareholders comply with the advance notice time requirements outlined in the "Shareholder Proposals and Nominations" section of this Proxy Statement.

SHAREHOLDER COMMUNICATIONS WITH THE BOARD >>> Shareholders wishing to communicate with the Board of Directors, the non-management directors, or with an individual Board member concerning the Company may do so by writing to the Board, to the non-management directors, or to the particular Board member, and mailing to the correspondence to: Office of the Chief Legal Officer, H&R Block, Inc., 4400 Main Street, Kansas City, Missouri 64111. The envelope should indicate that it contains a shareholder communication. All such shareholder communications will be forwarded to the director or directors to whom the communication is addressed.

DIRECTOR ATTENDANCE AT ANNUAL MEETINGS >>> Although the Company has no specific policy regarding director attendance at its annual meeting, all directors are encouraged to attend. Board and Committee meetings are held immediately preceding and following the annual meeting, with directors attending the annual meeting. All of the Company's directors attended last year's annual meeting.

ITEM 2 ON FORM OF PROXY

APPROVAL OF THE H&R BLOCK EXECUTIVE PERFORMANCE PLAN, AS AMENDED >>>

INTRODUCTION >>> The shareholders originally approved the H&R Block Short Term Incentive Plan (the "Plan") at the 1996 Annual Meeting and most recently reapproved the Plan, as amended, at the 2000 Annual Meeting. The Board recommends amendments to the Plan to (1) change the name of the Plan from the H&R Block Short Term Incentive Plan to the H&R Block Executive Performance Plan; and (2) increase the aggregate amount of all awards under the Plan to any participant for any Performance Period from $1,000,000 to $2,000,000.

The Plan allows the Company to include in the compensation package of an executive officer a bonus component intended to qualify as performance-based compensation under Section 162(m) of the Internal Revenue Code of 1986, as amended ("Code"). Section 162(m) provides that compensation in excess of $1 million paid for any tax year to a corporation's chief executive officer and the four other highest paid executive officers ("Covered Employees") at the end of such year will not be deductible by the corporation for federal income tax purposes unless certain conditions are met. Two such conditions are that the compensation must qualify as "performance-based compensation" and that the shareholders of the corporation must approve the material terms of the performance goals under which such compensation is to be paid. The Plan satisfies these conditions.

The Board believes that the amendment changing the name of the Plan will help eliminate any confusion between the Plan and the Company's short-term incentive program. The Board further believes that the increase in the limitation of awards will allow the Company the flexibility to take full advantage of the deductibility of executive compensation under Code Section 162(m). The Board believes that the Plan has enabled, and will enable, the Company and its subsidiaries to attract and retain highly qualified individuals as executive officers and to obtain from such officers the best possible performance to achieve particular business objectives established for the Company. Accordingly, the Board has approved the amendments to the Plan and is submitting the Plan, as so amended, to the shareholders for their approval.

SUMMARY OF THE PLAN AND AMENDMENTS >>> The primary features of the Plan and the proposed amendments are summarized below. The summary is qualified in its entirety by reference to the specific provisions of the Plan, as it is proposed to be amended, the full text of which is set forth as *Appendix B* to this proxy statement.

The Plan is administered by the Committee, which is composed of "outside directors" within the meaning of Section 162(m) of the Code. The Committee has authority to determine the terms and conditions of awards granted to eligible persons under the Plan. Awards under the Plan are in the form of cash compensation and may be granted only to employees of the Company or its subsidiaries who are at the level of Assistant Vice President or a more senior level and who are selected for participation by the Committee. The Committee may grant annual performance-based awards with respect to each fiscal year of the Company, or a portion thereof (a "Performance Period"). Within 90 days after the beginning of a Performance Period, the Committee establishes performance goals for the Company and its subsidiaries for the Performance Period and specific target awards for each participant selected by the Committee. The Committee specifies the performance goals applicable to each participant for each Performance Period, as well as the portion of the target award to which each performance goal applies. Awards are nontransferable other than by will or by the laws of descent and distribution.

The Plan specifies that performance goals established by the Committee each year must be based on one or more of the following business criteria: (a) earnings, (b) revenues, (c) sales of products, services or accounts, (d) numbers of income tax returns prepared, (e) margins, (f) earnings per share, (g) return on equity, (h) return on capital, and (i) total shareholder return. For any Performance Period, performance goals may be measured on an absolute basis or relative to internal goals, or relative to levels attained in fiscal years prior to the Performance Period. In addition, a participant must remain in the continuous employ of the Company or one or more of its subsidiaries through the end of a Performance Period to be eligible to receive payment of an award. The Plan grants the Committee discretion to pay in full or on a prorated basis an award determined in accordance with the Plan to a participant whose employment terminates during the Performance Period due to death, disability or retirement.

Following the end of a Performance Period, the Committee certifies the extent to which each performance goal has been achieved and then, to arrive at the actual award payout, determines a performance percentage for each goal to be multiplied by the portion of the target award to which the goal relates. The Compensation Committee has the discretion to establish with respect to each performance target and each Performance Period a schedule or other objective method ("Performance Schedule") of determining the applicable performance percentage to be used in arriving at the actual award

payout. The Committee is required to establish such Performance Schedule within 90 days after the beginning of the Performance Period. Any Performance Schedule established by the Committee may not provide for a performance percentage in excess of 200%.

The Plan currently provides that the aggregate amount of all awards under the Plan to any one participant for any Performance Period may not exceed $1,000,000. It is proposed that the Plan be amended to increase this limitation to $2,000,000. The $1,000,000 limit under the Plan has been in place since the inception of the Plan. Awards under the Plan are based on performance criteria established by the Compensation Committee to preserve federal income tax deductions for compensation paid to the Company's Covered Employees. The Compensation Committee recommended and the Board adopted the amendment to increase the aggregate amount of Awards payable under the Plan, subject to shareholder approval, as part of the Compensation Committee's aim to provide competitive compensation that enables the Company to retain key executives needed to accomplish the Company's goals. The amendment to the Plan will enhance the Compensation Committee's flexibility to motivate individuals to achieve exceptional performance for the Company. Payment of awards takes place as soon as administratively feasible following certification by the Committee of the extent to which performance goals have been achieved and the determination of the actual awards payable.

In the event of a recapitalization, reorganization, merger, acquisition, divestiture, consolidation, spin-off, split-off, combination, liquidation, dissolution, sale of assets, or other similar corporate transaction or event; changes in applicable tax laws or accounting principles; or any unusual, extraordinary or nonrecurring events involving the Company that distort the performance criteria applicable to any performance goal, the Committee must adjust the calculation of the performance criteria and the applicable performance goals as necessary to prevent reduction or enlargement of participants' awards under the Plan for such Performance Period attributable to such transaction or event.

The Board of Directors of the Company may at any time and from time to time alter, amend, suspend or terminate the Plan in whole or in part, without shareholder approval.

PLAN BENEFITS UNDER THE AMENDED PLAN >>>

Performance-based awards granted under the Plan, if any, are subject to the discretion of the Compensation Committee and to the achievement of certain performance targets as established by the Compensation Committee during a Performance Period. Amounts that may be received by officers of the Company eligible to participate in the Plan are not presently determinable. The following chart describes the amounts that the indicated participants were awarded under the Plan for the fiscal year ended April 30, 2005. Non-employee directors of the Company are not eligible to participate in the Plan.

Name and Principal Position	Award
Mark A. Ernst, Chairman of the Board, President and Chief Executive Officer	$217,140
Robert E. Dubrish, President and Chief Executive Officer, Option One Mortgage Corporation	$142,241
Jeffery W. Yabuki, Executive Vice President and Chief Operating Officer	$ 80,408
Steven Tait President, RSM McGladrey Business Services, Inc.	$302,784
Nicholas J. Spaeth Senior Vice President and Chief Legal Officer	$ 63,168
All Executive Officers	$805,741

The Board believes that approval of the Plan, as proposed to be amended, will assist the Company in the manner specified above and, as a result, will promote the interests of the Company and its shareholders.

THE BOARD OF DIRECTORS RECOMMENDS APPROVAL OF THE H&R BLOCK EXECUTIVE PERFORMANCE PLAN, AS AMENDED, AND PROXIES SOLICITED BY THE BOARD WILL BE SO VOTED IN THE ABSENCE OF INSTRUCTIONS TO THE CONTRARY.

ITEM 3 ON FORM OF PROXY

RATIFICATION OF APPOINTMENT OF INDEPENDENT ACCOUNTANTS >>>

The Board of Directors has appointed KPMG LLP as independent accountants to audit the Company's financial statements for the fiscal year ending April 30, 2006. A representative of KPMG LLP is expected to attend the annual meeting to respond to appropriate questions and will have an opportunity to make a statement if he or she so desires. For additional information regarding the Company's relationship with KPMG LLP, please refer to the "Audit Committee Report" below.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" THE RATIFICATION OF THE APPOINTMENT OF KPMG LLP, AND PROXIES SOLICITED BY THE BOARD OF DIRECTORS WILL BE SO VOTED IN THE ABSENCE OF INSTRUCTIONS TO THE CONTRARY.

AUDIT COMMITTEE REPORT >>>

The Company's management is responsible for the preparation of financial statements in accordance with generally accepted accounting principles and the financial reporting process, including the Company's system of internal controls. The Company's independent accountants are responsible for auditing the Company's financial statements and expressing an opinion as to their conformity to accounting principles generally accepted in the United States. The Audit Committee of the Board of Directors, composed solely of independent directors, meets periodically with management, the independent accountants and the internal auditor to review matters relating to the Company's financial statements, internal audit activities, internal accounting controls and non-audit services provided by the independent accountants.

The Audit Committee has reviewed and discussed with management and KPMG LLP ("KPMG"), the Company's independent accountants, the Company's audited financial statements for the fiscal year ended April 30, 2005. The Audit Committee has also discussed with KPMG the matters required to be discussed by Statement on Auditing Standards No. 61 relating to communication with audit committees. In addition, the Audit Committee has received from KPMG the written disclosures and the letter required by Independence Standards Board No. 1 relating to independence discussions with audit committees; has discussed with KPMG their independence from the Company and its management; and has considered whether KPMG's provision of non-audit services to the Company is compatible with maintaining the auditor's independence.

Based on the reviews and discussions referred to above, the Audit Committee recommended to the Board of Directors of the Company, and the Board has approved, that the Company's audited financial statements be included in the Annual Report on Form 10-K for the fiscal year ended April 30, 2005, for filing with the Securities and Exchange Commission.

AUDIT COMMITTEE

Louis W. Smith, Chairman
Roger W. Hale
Henry F. Frigon
David Baker Lewis
Rayford Wilkins, Jr.

AUDIT FEES >>>

The following table presents fees for professional services rendered by KPMG LLP for the audit of the Company's annual financial statements for the years ended April 30, 2005 and 2004 and fees billed for other services rendered by KPMG LLP for such years:

Fiscal Year	**2005**	2004
Audit fees	**$3,536,320**	$2,346,175
Audit-related fees	**311,672**	996,759
Tax fees	**252,186**	115,000
All other fees	**—**	345,000
Total fees	**$4,100,178**	$3,802,934

Audit Fees consist of fees for professional services rendered for the audit of the Company's financial statements and review of financial statements included in the Company's quarterly reports and services normally provided by the independent auditor in connection with statutory and regulatory filings or engagements.

Audit-Related Fees are fees for assurance and related services that are reasonably related to the performance of the audit or review of the Company's financial statements or that are traditionally performed by the independent auditor.

Tax Fees consist of fees for the preparation of original and amended tax returns, claims for refunds and tax payment-planning services for tax compliance, tax planning, tax consultation and tax advice.

All other fees are fees billed for professional services that were not the result of an audit or review.

The Audit Committee has adopted policies and procedures for pre-approving audit and non-audit services performed by the independent auditor so that the provision of such services does not impair the auditor's independence. Under the Audit Committee's pre-approval policy, the terms and fees of the annual audit engagement require specific Audit Committee approval. Other types of service are eligible for general pre-approval. Unless a type of service to be provided by the independent auditor has received general pre-approval, it will require specific Audit Committee pre-approval. In addition, any proposed services exceeding pre-approved cost levels will require specific pre-approval by the Audit Committee.

General pre-approval granted under the Audit Committee's pre-approval policy extends to the fiscal year next following the date of pre-approval. The Audit Committee reviews and pre-approves services that the independent auditor may provide without obtaining specific Audit Committee pre-approval on an annual basis and revises the list of general pre-approved services from time to time. In determining whether to pre-approve audit or non-audit services (regardless of whether such approval is general or specific pre-approval), the Audit Committee will consider whether such services are consistent with the Securities and Exchange Commission's rules on auditor independence. The Audit Committee will also consider whether the independent auditor is best positioned to provide the most effective and efficient service and whether the service might enhance the Company's ability to manage or control risk or improve audit quality. All such factors will be considered as a whole and no one factor should necessarily be determinative. The Audit Committee will also consider the relationship between fees for audit and non-audit services in deciding whether to pre-approve any such services. The Audit Committee may determine for each fiscal year the appropriate ratio between fees for Audit Services and fees for Audit-Related Services, Tax Services and All Other Services.

The Audit Committee may delegate pre-approval authority to one or more of its members. The member or members to whom such authority is delegated shall report any pre-approval decisions to the Audit Committee at its next scheduled meeting.

The Audit Committee has concluded that the provision of non-audit services provided to the Company by its independent accountant during the 2005 fiscal year was compatible with maintaining the independent accountant's independence.

EXECUTIVE COMPENSATION

COMPENSATION COMMITTEE REPORT ON EXECUTIVE COMPENSATION >>>

The Compensation Committee is responsible for reviewing the Company's executive compensation program and policies each year and recommending to the non-employee members of the Board of Directors the compensation of the Company's executive officers. The Compensation Committee's charter reflects these responsibilities. You can find a copy of the Compensation Committee charter on the Company's website at www.hrblock.com under the tab "Our Company" and then under the heading "Block Investors" and then under "Corporate Governance."

The Compensation Committee consists solely of directors who are each (i) independent under the New York Stock Exchange's listing standards and the Board's Director Independence Standards, (ii) an outside director for purposes of Section 162 (m) of the Internal Revenue Code, and (iii) a "non-employee

director" pursuant to Rule 16b-3 under federal securities laws. In addition to consisting solely of independent directors, the Committee retains independent compensation consultants to assist it in fulfilling its responsibilities.

The Company continues to be strongly committed to maximizing shareholder value through consistent growth and profitability. Superior performance by the executive officers and management team of the Company and its subsidiary corporations is essential to reaching that goal. As such, the Company's philosophy is to assure that executive compensation is linked directly to sustained improvements in individual and corporate performance and increases in total shareholder return.

COMPENSATION PROGRAM

BASE SALARY >>> Base salaries are determined based on external competitiveness for similarly-scoped roles in peer companies, internal equity and the executive's experience, talents and performance.

SHORT-TERM INCENTIVE PROGRAM >>> The Company's short-term incentive program (the "STI Program") consists of an objective incentive compensation component based upon annual financial targets tied to business unit or overall corporate results (the "Financial STI Component") and a discretionary incentive compensation component based on achieving pre-established individual or strategic objectives (the "Discretionary STI Component"). A heavier emphasis for executive officers (80% of targeted incentive compensation in most cases in fiscal year 2005) is placed upon the Financial STI Component, which specifically relates executive pay to Company performance. Under the STI Program, the Committee reviews and the Board approves financial-performance goals and individual target bonus awards.

Short-term incentive compensation generally is paid in cash. Short-term incentive payouts exceeding 150% of the targeted payouts are paid in restricted stock. Restricted stock is issued under the Company's 2003 Long-Term Executive Compensation Plan and is described in more detail under "Long-Term Incentive Compensation" below. The amount of restricted stock awarded is calculated by dividing the cash value of the applicable incentive compensation by the last reported closing price for the Company's stock as of June 30, 2005.

Financial STI Component. Payments under the Financial STI Component are made after the end of a fiscal year only if the Company (or applicable business unit) has met the financial-performance goals reviewed by the Committee and approved by the Board for such fiscal year. The Committee reviews and the Board approves the payout for an executive officer and determines the extent to which the requisite performance targets have been achieved prior to payment of the Financial STI Component. Fiscal year 2005 performance criteria under the Financial STI Component consisted of the following: (i) the degree to which the Company attained targeted year-over-year growth in diluted earnings per share; (ii) year-over-year growth in pretax earnings; and (iii) attainment of year-over-year revenue goals. In addition, fiscal year 2005 performance criteria included year-over-year client growth for the U.S. tax services business segment and year-over-year origination growth for the mortgage services business segment. Under the Financial STI Component, participants can earn more or less than the target award (from 0% to 200% of the target award) depending upon how actual results compare to the pre-established performance targets.

Discretionary STI Component. Payments under the Discretionary STI Component for fiscal year 2005 were based upon achievement of strategic and individual performance objectives that support the Company's priorities. For most executive officers, 20% of the executive's overall targeted STI Program compensation was based on the Discretionary STI Component. Actual incentive payouts under the Discretionary STI Component could be from 0% to 200% of the target award, depending upon actual performance against pre-established objectives.

SHORT-TERM INCENTIVE COMPENSATION PLAN >>> In addition to the STI Program, the Company maintains the H&R Block Short-Term Incentive Plan, which was approved by the Company's shareholders on September 13, 2000 (the "Executive Plan"). To the extent an officer receives an award under the Executive Plan, such officer does not receive an award under the Financial Component of the STI Program. The Executive Plan permits the Company to include a bonus compensation component in executive officer compensation intended to qualify as deductible performance-based compensation under Section 162(m) of the Internal Revenue Code. Under the Executive Plan, the Committee may grant performance-based awards to certain officers of the Company or its subsidiaries who are selected by the Committee and approved by the Board, including the Company's Chief Executive Officer and its four other highest paid executive officers at the end of the applicable tax year. Awards under the Executive Plan are based on performance targets reviewed each year by the Committee and approved by the Board. Fiscal year 2005 performance criteria under the Executive Plan were the same as the fiscal year 2005 performance criteria under the Financial STI Component.

LONG-TERM INCENTIVE COMPENSATION >>> The Company encourages stock ownership by its executive officers

by issuing long-term incentive awards tied to the Company's Common Stock, such as stock options and restricted stock. Stock options and restricted stock provide executives an economic interest in increasing long-term shareholder value, thereby better aligning their interests with those of the Company's shareholders. Under the Company's 2003 Long-Term Executive Compensation Plan, option exercise prices are set at 100% of the fair market value of the stock on the date of grant and the options expire after ten years. Options granted to executive officers in fiscal year 2005 become exercisable over a three-year period in one-third increments. Restrictions on restricted stock granted in fiscal year 2005 lapse over a three-year period in one-third annual increments beginning on the first anniversary of the date of issuance. Prior to the lapse of restrictions, restricted stock is subject to forfeiture and may not be transferred. In addition, restricted stock recipients are entitled to (i) receive any cash dividends payable with respect to unvested restricted stock and (ii) vote unvested restricted stock shares at shareholders meetings.

Options are granted, and restricted stock is awarded, to executives at the Board's discretion, taking into account the Committee's recommendation. Stock options and restricted stock are granted or awarded on an annual basis and sometimes as part of an employment offer. The number of shares subject to any stock option grant or restricted stock award is based on the executive's level of responsibility, prior year's performance, ability to impact the Company's future performance, and awards made to executives at peer companies. The Compensation Committee believes that stock options and restricted stock have been effective in attracting, retaining and rewarding executives and key employees.

DEFERRED COMPENSATION >>> The Company offers its executive officers and key employees a deferred compensation plan designed to enhance financial security upon retirement. Subject to annual deferral limits, the plan offers participants the opportunity to defer compensation during the time of his or her participation in the plan. The Company contributes to the plan an annual match of 100% of the first 5% of aggregate salary and bonus deferred to the plan and the Company's qualified retirement plans, less any employer matching contributions made to one of the Company's qualified retirement plans. Company contributions vest based on the number of years of the employee's plan participation. Gains or losses are posted to a participant's account pursuant to his or her selection of various fixed rate, variable rate and Company stock investment alternatives. The plan is unfunded, and benefits are paid following termination of employment, except in cases of disability or hardship.

BENEFITS AND PERQUISITES >>> The Company also provides certain benefits to all employees such as matching contributions to the Company's qualified retirement plans, an employee stock purchase plan that permits purchases of the Company's Common Stock at a discount, life insurance and health and welfare benefit programs. Benefits for executives generally are the same as benefits for all other employees, except that only executive officers and key employees may participate in the Company's Executive Survivor Plan and Deferred Compensation Plan. The Company's use of non-commercial aircraft on a time-share or rental basis is limited to business travel purposes.

EXECUTIVE STOCK OWNERSHIP GUIDELINES >>> The Company believes that its executives should have a significant financial stake in the Company so that their interests are aligned with those of the shareholders. To that end, the Board of Directors has adopted stock ownership guidelines that describe the Board's expectations that certain executives should own shares of Company stock with an aggregate value that meets or exceeds certain specified multiples of the executive's base salary. The guidelines provide for an ownership multiple of five times base salary for the Company's Chief Executive Officer and lower ownership multiples for other executives. The Board has adopted similar stock ownership guidelines regarding stock ownership by Board members. The Board membership ownership guidelines provide for non-employee directors to own shares of Company stock with an aggregate value generally exceeding five times the annual retainer paid to non-employee directors.

COMPENSATION OF CHIEF EXECUTIVE OFFICER >>> The salary, short-term incentive compensation and long-term incentive compensation of the Chief Executive Officer generally are determined pursuant to the policies described above for all other executives of the Company.

Mark A. Ernst has served as President and Chief Executive Officer of the Company since January 1, 2001 and as Chairman of the Board since September 11, 2002. Mr. Ernst is a party to an employment agreement entered into at the time of his employment in 1998. Mr. Ernst's annual base rate of salary was increased from $772,500 to $825,000, effective July 1, 2004. In addition, the Committee recommended and the Board approved a target award under the Executive Plan for Mr. Ernst for fiscal year 2005 of $660,000. The target award under the Executive Plan constitutes 80% of Mr. Ernst's overall short-term incentive compensation target award ("Total STI Target") and is tied to the following objective, performance-based criteria: (i) 32% of the

Total STI Target was based on year-over-year growth in overall corporate earnings per share, (ii) 8% of the Total STI Target was based on year-over-year growth in overall revenue and (iii) 40% of the Total STI Target was tied to individual business unit performance targets. Based upon the results achieved by the Company, Mr. Ernst earned incentive compensation under the Executive Plan of $217,140 (32% of target).

Under the Discretionary STI Component of the STI Program a target award of $165,000 (20% of annual base pay) was established for Mr. Ernst, with an actual payout to be recommended by the Committee for Board approval based upon Mr. Ernst's progress against strategic priorities reviewed by the Committee and approved by the Board in June 2004. Based on the Committee's recommendation, the Board determined that Mr. Ernst earned incentive compensation under the Discretionary STI Component of $181,500 (110% of target). All of Mr. Ernst's short-term incentive compensation was paid in cash.

Mr. Ernst was granted an option to purchase 110,000 shares of Common Stock at an option price of $46.78 per share, the last quoted market price for the Company's Common Stock on June 30, 2004, the date of grant. Such option has a term of ten years and vests in one-third annual increments beginning on the first anniversary of the date of grant. Mr. Ernst was also awarded 15,000 shares of restricted stock. Restrictions on such restricted stock lapse over a three-year period in one-third annual increments beginning June 30, 2005.

REVIEW OF ALL COMPONENTS OF EXECUTIVE COMPENSATION >>> During the course of fiscal year 2005, the Compensation Committee reviewed all components of compensation for Mr. Ernst and other highly compensated executive officers. This review encompassed all forms of compensation and balances in equity, retirement and non-qualified deferred compensation plans, including base salary short-term incentive compensation, long-term incentive awards, and other vested benefit payouts. As a part of this review process, the Committee also reviewed executive termination costs for each of these officers.

TAX CONSIDERATIONS >>> Section 162(m) of the Internal Revenue Code limits to $1 million the Company's federal income tax deduction for compensation paid to any one executive officer named in the Summary Compensation Table of the Company's proxy statement, subject to certain transition rules and exceptions for specified types of performance-based compensation. The Company has designed the H&R Block Executive Performance Plan and a portion of compensation payable under the 2003 Long-Term Executive Compensation Plan so that compensation paid under these plans would be deductible under 162(m), although individual exceptions may occur.

The Committee believes that it is in the Company's and shareholders' best interests to maximize tax deductibility when appropriate and consistent with shareholder interests. The Committee may recommend for Board approval non-deductible compensation when it believes that such awards are in the best interest of the shareholders, balancing tax efficiency with long-term strategic objectives.

COMPENSATION COMMITTEE

Donna R. Ecton, Chairman
Henry F. Frigon
Roger W. Hale
Tom D. Seip
Louis W. Smith

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION >>>

The following non-employee directors serve on the Compensation Committee of the Board of Directors: Donna R. Ecton (Chairman), Henry F. Frigon, Roger W. Hale, Tom D. Seip and Louis W. Smith. No directors on the Compensation Committee (a) are or have been officers or employees of the Company or any of its subsidiaries, or (b) had any relationships requiring disclosure in the proxy statement.

SUMMARY COMPENSATION TABLE >>>

The following table sets forth for the fiscal year ended April 30, 2005 and for the two previous fiscal years the annual, long-term and other compensation paid to the Chief Executive Officer of the Company and to each of the four highest paid executive officers of the Company (other than the Chief Executive Officer) who was serving as an executive officer of the Company at the end of such year. The information provided with respect to restricted shares and options does not reflect the two-for-one stock split effective August 22, 2005.

		Annual Compensation			Long-Term Compensation Awards			
Name and Principal Position	Fiscal Year	Salary ($)	Bonus ($)	Other Annual Compensation ($)[1]	Restricted Stock Award(s)($)[2]	Securities Underlying Options (#)	LTIP Payouts ($)	All Other Compensation ($)[3]
Mark A. Ernst, Chairman of the Board, President and Chief Executive Officer	2005	816,250	394,292	1,509	714,975	110,000	-0-	81,200
	2004	768,750	865,447	1,574	432,500	110,000	-0-	90,958
	2003	741,667	734,063	-0-	-0-	120,000	-0-	60,470
Robert E. Dubrish, President and Chief Executive Officer, Option One Mortgage Corporation	2005	472,372	203,432	42	309,823	85,000	-0-	42,572
	2004	450,000	438,681	40	229,981	90,000	-0-	66,097
	2003	425,000	414,375	40	139,511	90,000	-0-	29,676
Jeffery W. Yabuki, Executive Vice President and Chief Operating Officer	2005	465,000	143,585	1,033	309,823	85,000	-0-	43,720
	2004	437,500	383,133	1,482	216,250	90,000	-0-	51,290
	2003	416,667	352,219	1,440	-0-	90,000	-0-	37,268
Steven Tait President, RSM McGladrey Business Services, Inc.	2005	429,794	357,095	42	238,325	35,000	-0-	29,642
	2004	400,000	217,008	272	-0-	40,000	-0-	22,216
	2003	33,333	-0-	-0-	321,375	50,000	-0-	20
Nicholas J. Spaeth Senior Vice President and Chief Legal Officer	2005	400,000	101,533	-0-	238,325	35,000	-0-	44,182
	2004	100,000	300,000	1,982	1,159,800	200,000	-0-	3,921
	2003	-0-	-0-	-0-	-0-	-0-	-0-	-0-

NOTES:

[1] For fiscal year 2005, (a) the $1,509 figure represents the dollar value of tax preparation and advice provided by the Company to Mr. Ernst; (b) the $42 figure represents payment by the Company for participation by Mr. Dubrish in the Company's group legal plan; (c) the $1,033 figure represents the dollar value of tax preparation and advice provided by the Company to Mr. Yabuki; and (d) the $42 figure represents payment by the Company for participation by Mr. Tait in the Company's group legal plan.

[2] Restricted shares of the Company's common stock granted pursuant to the Company's Long-Term Executive Compensation Plan. The awards shown represent grants of restricted shares valued as of the date of the grant. Dividends are paid on the restricted shares as when dividends are paid on the Company's Common Stock. The restricted shares vest in one-third annual increments beginning one year after the grant date.

- Mark A. Ernst – For fiscal year 2005, 15,000 shares granted on June 30, 2004, valued at $47.665 per share. As of April 30, 2005, Mr. Ernst held 22,880 restricted shares with a value of $1,139,653. Mr. Ernst received dividends totaling $17,588 on the restricted shares during fiscal year 2005.
- Robert E. Dubrish – For fiscal year 2005, 7,000 shares granted on June 30, 2004, valued at $47.665 per share. As of April 30, 2005, Mr. Dubrish held 13,258 restricted shares with a value of $660,381. Mr. Dubrish received dividends totaling $10,793 on the restricted shares during fiscal year 2005.
- Jeffery W. Yabuki – For fiscal year 2005, 8,000 shares granted on June 30, 2004, valued at $47.665 per share. As of April 30, 2005, Mr. Yabuki held 10,747 restricted shares with a value of $535,308. Mr. Yabuki received dividends totaling $ $8,457 on the restricted shares during fiscal year 2005.
- Steven Tait – For fiscal year 2005, 7,000 shares granted on June 30, 2004, valued at $47.665 per share. As of April 30, 2005, Mr. Tait held 7,500 restricted shares with a value of $373,575. Mr. Tait received dividends totaling $7,600 on the restricted shares during fiscal year 2005.
- Nicholas J. Spaeth – For fiscal year 2005, 5,000 shares granted on June 30, 2004, valued at $47.665 per share. As of April 30, 2005, Mr. Spaeth held 25,000 restricted shares with a value of $1,245,250. Mr. Spaeth received dividends totaling $20,500 on the restricted shares during fiscal year 2005.

[3] For fiscal year 2005, these figures include the following: (a) the Company's matching contributions under the Company's Deferred Compensation Plan for Executives (''DCP'') of $72,961 (Mr. Ernst), $34,476 (Mr. Dubrish), $31,657 (Mr. Yabuki), $20,975 (Mr. Tait), and $28,083 (Mr. Spaeth); (b) the Company's matching contributions under the H&R Block Retirement Savings Plan (''RSP'') of $5,500 (Mr. Ernst), $4,994 (Mr. Dubrish), $10,631 (Mr. Yabuki), $6,089 (Mr. Tait) and $11,083 (Mr. Spaeth); (c) the insurance premiums paid by the Company with respect to term life insurance maintained by the Company for the benefit of each of the named executive officers of $1,254 (Mr. Ernst), $1,957 (Mr. Dubrish), $714 (Mr. Yabuki), $673 (Mr. Tait), and $635 (Mr. Spaeth); and (d) the economic value of the death benefit provided by the Company's Executive Survivor Plan (''ESP'') of $1,485 (Mr. Ernst), $1,325 (Mr. Dubrish), $719 (Mr. Yabuki), $1,905 (Mr. Tait) and $4,380 (Mr. Spaeth). The imputed income reported from the ESP represents the portion of the premium paid by the Company pursuant to the ESP that is attributable to term life insurance coverage for the executive officer. The ESP provides only an insurance benefit with no cash compensation element to the executive officer.

STOCK OPTION GRANT TABLE >>>

The following table summarizes options to purchase the Company's Common Stock granted during the fiscal year ended April 30, 2005 to the executive officers named in the Summary Compensation Table (the "Named Officers") above. The information provided does not reflect the two-for-one stock split effective August 22, 2005.

	Individual Grants				Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term[1]	
Name	Number of Securities Underlying Options Granted (#)[2]	% of Total Options Granted to Employees in Fiscal Year	Exercise Price ($/Sh)[2]	Expiration Date	5% ($)	10% ($)
Mark A. Ernst	110,000	2.89	47.68	6/30/2014	3,298,427	8,358,860
Robert E. Dubrish	85,000	2.24	47.68	6/30/2014	2,548,784	6,459,119
Jeffery W. Yabuki	85,000	2.24	47.68	6/30/2014	2,548,784	6,459,119
Steven Tait	35,000	0.92	47.68	6/30/2014	1,049,499	2,659,637
Nicholas J. Spaeth	35,000	0.92	47.68	6/30/2014	1,049,499	2,659,637

NOTES:

(1) The amounts shown as potential realizable values on the options identified in the table are based on arbitrarily assumed annualized rates of appreciation in the price of the Company's Common Stock of five percent and ten percent over the term of the options, as set forth in the rules of the Securities and Exchange Commission relating to proxy disclosure. Actual gains, if any, on stock option exercises are dependent on the future performance of the Common Stock. There can be no assurance that the potential realizable values reflected in this table will be achieved.

(2) Stock option grants consisted of nonqualified stock options, incentive stock options or a combination of the two types of options. No stock appreciation rights were granted during fiscal year 2005. Options were granted under the 2003 Long-Term Executive Compensation Plan. The exercise price for each option is the fair market value of a share of Common Stock on the date of grant. Options granted to the Named Officers become exercisable one year after the date of grant, at which time they are exercisable on a cumulative basis at a maximum annual rate of one-third of the total number of shares subject to the option. The stock options generally become fully exercisable (a) at any time after the Named Officer reaches the age of 65, retires, and more than one year has elapsed since the date of grant, or (b) upon a change in control of the Company not less than six months after the date of grant. The Named Officer must be employed by the Company or one of its subsidiary corporations at the time of exercise, except that the exercise of the options may take place for limited time periods after the termination of employment in the event of death, retirement, disability or termination without cause. All options expire ten years after the date of grant.

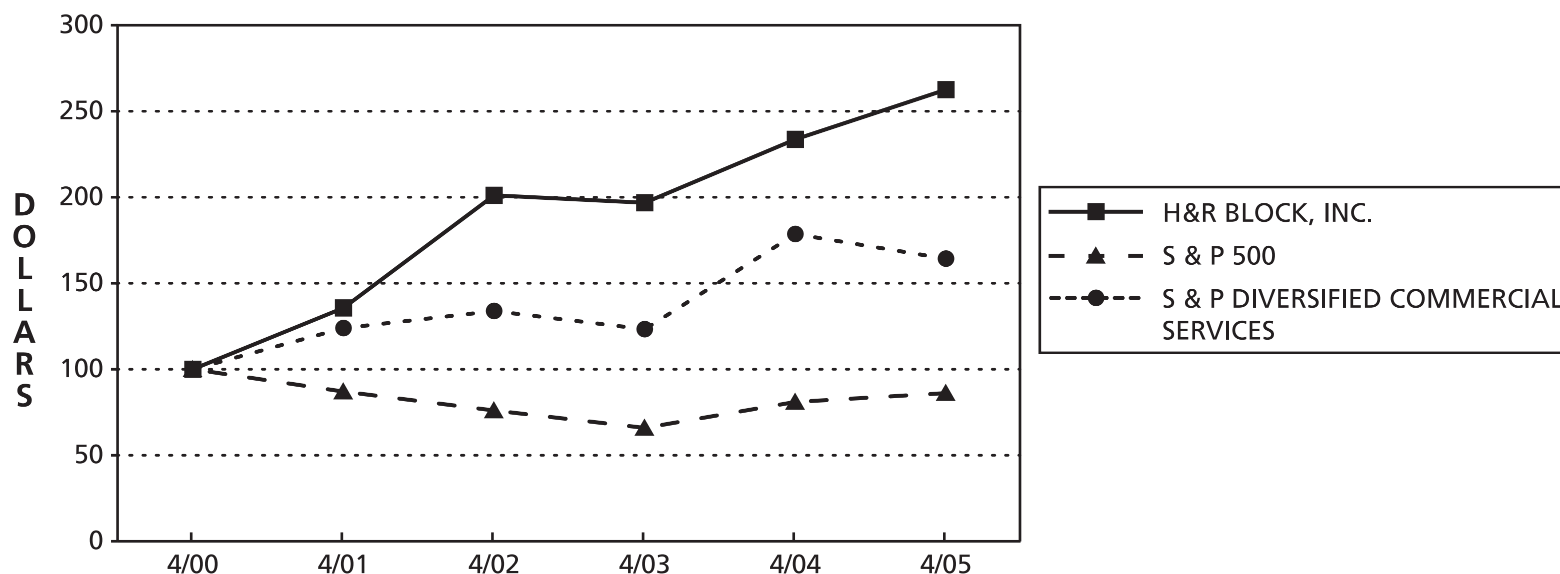
OPTION EXERCISES AND FISCAL YEAR-END VALUES >>>

The following table summarizes the value realized on the exercise of options during the fiscal year ended April 30, 2005 and presents the value of unexercised options as of such date for the Named Officers. The information provided does not reflect the two-for-one stock split effective August 22, 2005. The value of unexercised in-the-money options at fiscal year-end is calculated by determining the difference between the fair market value of the securities underlying the options at fiscal year-end and the exercise price of the options multiplied by the number of shares underlying such option:

			Number of Securities Underlying Unexercised Options at FY-End (#)	Value of Unexercised In-the-Money Options at FY-End ($)
Name	Shares Acquired on Exercise (#)	Value Realized ($)	Exercisable (E)/ Unexercisable (U)	Exercisable (E)/ Unexercisable (U)
Mark A. Ernst	-0-	-0-	766,675(E) 323,325(U)	$ 19,205,987(E) $ 1,963,238(U)
Robert E. Dubrish	80,000	2,522,913	212,006(E) 224,994(U)	$ 4,053,678(E) $ 1,077,430(U)
Jeffery W. Yabuki	-0-	-0-	270,006(E) 234,994(U)	$ 5,761,095(E) $ 1,249,780(U)
Steven Tait	-0-	-0-	30,000(E) 95,000(U)	$ 194,466(E) $ 452,984(U)
Nicholas J. Spaeth	-0-	-0-	66,667(E) 168,333(U)	$ -0-(E) $ 64,050(U)

PERFORMANCE GRAPH >>>

The graph below sets forth for the five-year period ended April 30, 2005, the cumulative total shareholder return to the Company's shareholders, as well as the cumulative total return of the Standard & Poor's 500 Stock Index and the cumulative total return of the Standard & Poor's Diversified Commercial Services Index, the published industry index to which the Company is currently assigned by Standard & Poor's. The performance graph assumes that $100 was invested at the market close on April 30, 2000 and that dividends were reinvested. The data for the graph was furnished by Research Data Group, Inc.



CUMULATIVE TOTAL SHAREHOLDER RETURN >>>

	4/00	4/01	4/02	4/03	4/04	4/05
H&R BLOCK, INC	100.00	135.66	201.13	196.80	233.66	262.56
S & P 500	100.00	87.03	76.04	65.92	81.00	86.14
S & P DIVERSIFIED COMMERCIAL SERVICES	100.00	123.91	133.84	123,27	178.58	164.26

EQUITY COMPENSATION PLANS >>>

The following table provides information about the Company's Common Stock that may be issued upon the exercise of options, warrants and rights under all of the Company's existing equity compensation plans as of April 30, 2005. The information provided does not reflect the two-for-one stock split effective August 22, 2005. The Company currently has four stock-based compensation plans: the 2003 Long-Term Executive Compensation Plan, the 1989 Stock Option Plan for Outside Directors, the 1999 Stock Option Plan for Seasonal Employees, and the 2000 Employee Stock Purchase Plan. The shareholders have approved all of the Company's stock-based compensation plans. The shareholders approved the 2003 Plan in September 2002 to replace the 1993 Long-Term Executive Compensation Plan, effective July 1, 2003. The 1993 Plan terminated at that time, except with respect to outstanding awards thereunder. The shareholders had approved the 1993 Plan in September 1993 to replace the 1984 Long-Term Executive Compensation Plan, which terminated at that time except with respect to outstanding options thereunder.

Plan category	Number of securities to Be Issued Upon Exercise of Outstanding Options, Warrants and Rights (A)	Weighted-average exercise price of outstanding options, warrants and rights (B)	Number of securities remaining available for future issuance under equity compensation plans excluding securities reflected in column (A) (C)
Equity compensation plans approved by security holders	13,552,000	$38.04	9,888,179
Equity compensation plans not approved by security holders	—	—	—
Total	13,522,000	$38.04	9,888,179

EMPLOYMENT AGREEMENTS, CHANGE-IN-CONTROL AND OTHER ARRANGEMENTS >>>

Mark A. Ernst is subject to an Employment Agreement with HRB Management, Inc. ("HRB"), an indirect subsidiary of the Company, dated July 16, 1998, whereby effective September 1, 1998, he was employed as the Executive Vice President and Chief Operating Officer of the Company. Base salary and incentive bonus compensation are to be reviewed annually by the Compensation Committee. The Agreement provides that it may be terminated by either party at any time for any reason upon 45 days' prior written notice, by HRB for "cause," and by Mr. Ernst for "good reason," in each case as defined in the Agreement. If the Agreement is terminated by HRB without "cause," by Mr. Ernst for "good reason," or by either party during the 180-day period following the date of a "change of control" (as defined in the Agreement) of the Company, HRB is obligated to continue to pay Mr. Ernst's salary (determined as of the termination date) and provide all other benefits for a period of two years following such termination, as well as a pro rata portion of the incentive bonus compensation to which he would have been entitled had he remained employed through the end of the fiscal year in which such termination occurs. In addition, all outstanding stock options become fully vested and are exercisable for the three-month period following termination, and any restrictions upon Common Stock awarded Mr. Ernst on the effective date lapse and such stock becomes fully vested upon the date of termination.

Robert E. Dubrish is subject to an Employment Agreement with Option One Mortgage Corporation ("Option One"), an indirect subsidiary of the Company, dated February 9, 2002, and effective June 30, 2001. Base salary and any incentive bonus compensation are to be reviewed annually by the Compensation Committee. The Agreement provides that it may be terminated by either party at any time for any reason upon 45 days' prior written notice. Option One also has the right to terminate the Agreement without notice upon the occurrence of certain stated events. If Mr. Dubrish incurs a "qualifying termination," as defined in the H&R Block Severance Plan (the "Severance Plan"), or if the Agreement is terminated by Mr. Dubrish within 180 days following a "change of control" (as defined in the Agreement) of the Company, Option One is obligated to pay to Mr. Dubrish his choice of the level of severance compensation and benefits as would be provided under the Severance Plan as such plan exists either on the effective date of the Agreement or on Mr. Dubrish's last day of employment. As of the effective date, the Severance Plan provides maximum compensation of 18 months of salary and one and one-half times target payout under the STI Program, with the actual amount based upon Mr. Dubrish's salary and target payout, salary grade and length of service with all subsidiaries of the Company at the time of his termination, as well as a discretionary payment, which may be zero. In addition, in such circumstances, Option One is obligated to provide health,

life and disability insurance benefits for up to 12 months following such termination, and all outstanding stock options that would have vested in the 18-month period following termination become fully vested and are exercisable for the three-month period following termination or the severance period.

Jeffery W. Yabuki is subject to an Employment Agreement with HRB dated September 7, 1999, whereby effective September 7, 1999, he was employed as the President, H&R Block International. Base salary and incentive bonus compensation are to be reviewed annually by the Compensation Committee. The Agreement provides that it may be terminated by either party at any time for any reason upon 45 days' prior written notice, by mutual written agreement, by HRB for "cause," and by Mr. Yabuki for "good reason," in each case as defined in the Agreement. If the Agreement is terminated by HRB without "cause," by Mr. Yabuki for "good reason," or by either party within 180 days following a "change of control" (as defined in the Agreement) of the Company, HRB is obligated to pay to Mr. Yabuki for the two-year period following such termination compensation at an annual rate equal to the sum of the annual rate of base salary in effect on the date of termination and the aggregate short-term incentive compensation paid by HRB to him for the last fiscal year completed prior to the year of termination, and provide health, life and disability insurance benefits for a period of two years following such termination. In addition, all outstanding stock options which would have vested during such two-year period following termination become fully vested and are exercisable for the three-month period following termination, and any restrictions upon stock held by Mr. Yabuki lapse to the extent such restrictions would have lapsed during the two-year period following termination.

Steven Tait is subject to an Employment Agreement with HRB Business Services, Inc. (now RSM McGladrey Business Services, Inc.) ("RSM"), an indirect subsidiary of the Company, dated April 1, 2003, whereby effective April 1, 2003, he was employed as President of RSM. Base salary is to be reviewed for adjustment no less than annually. The Agreement provides that it may be terminated by either party at any time for any reason upon 45 days' prior written notice. RSM also has the right to terminate the Agreement without notice upon the occurrence of certain stated events. If Mr. Tait incurs a "qualifying termination," as defined in the Severance Plan, or if the Agreement is terminated by Mr. Tait within 180 days following a "change of control" (as defined in the Agreement) of the Company, RSM is obligated to pay to Mr. Tait his choice of the level of severance compensation and benefits as would be provided under the Severance Plan as such plan exists either on the effective date of the Agreement or on Mr. Tait's last day of employment. As of the effective date, the Severance Plan provides maximum compensation of 18 months of salary and one twelfth of the target payout under the STI Program multiplied by Mr. Tait's years of service, as well as a discretionary payment, which may be zero. In addition, in such circumstances, RSM is obligated to provide medical, dental, vision, employee assistance, life insurance, cafeteria plan and accidental death and dismemberment insurance benefits for up to 12 months following such termination, and all outstanding stock options that would have vested in the 18-month period following termination become fully vested and are exercisable for the three-month period following termination or the severance period.

Nicholas J. Spaeth is subject to an Employment Agreement with HRB dated February 2, 2004, whereby effective February 2, 2004, he was employed as the Senior Vice President, Chief Legal Officer of the Company. The Agreement provides for an initial base salary at an annual rate of $400,000; participation in the Company's Short-Term Incentive Plan, a $300,000 bonus upon completion of Fiscal Year 2004; 20,000 restricted shares of the Company's Common Stock awarded on the effective date; and a stock option to purchase 200,000 shares of Common Stock granted on the effective date. Base salary and incentive bonus compensation are to be reviewed annually by the Compensation Committee. The Agreement provides that it may be terminated by either party at any time for any reason upon 45 days' prior written notice. HRB also has the right to terminate the Agreement without notice upon the occurrence of certain stated events. If Mr. Spaeth incurs a "qualifying termination," as defined in the Severance Plan, or if the Agreement is terminated by Mr. Spaeth within 180 days following a "change of control" (as defined in the Agreement) of the Company, HRB is obligated to pay to Mr. Spaeth his choice of the level of severance compensation and benefits as would be provided under the Severance Plan as such plan exists either on the effective date of the Agreement or on Mr. Spaeth's last day of employment. As of the effective date, the Severance Plan provides maximum compensation of 18 months of salary and one twelfth of the target payout under the STI Program multiplied by Mr. Spaeth's years of service, as well as a discretionary payment, which may be zero. In addition, in such circumstances, HRB is obligated to provide medical, dental, vision, employee assistance, life insurance, cafeteria plan and accidental death and dismemberment insurance benefits for up to 12 months following such termination, and all outstanding stock options that would have vested in the 18-month period following termination become fully vested and are exercisable for the three-month period following termination or the severance period.

Stock option agreements entered into on or after June 30, 1996 between the Company and the recipients of stock options granted pursuant to the 1993 Long-Term Executive Compensation Plan and the 2003 Long-Term Executive Compensation Plan contain provisions that accelerate the vesting of options held more than six months in the event of certain changes in control. For purposes of such agreements, changes in control include (i) the purchase or other acquisition by a person, entity or group of persons of beneficial ownership of 20% or more of the Company's voting securities, (ii) the turnover of more than a majority of the directors on the Board of Directors as a result of a proxy contest or series of contests, (iii) either approval (for agreements entered into prior to June 30, 2001) by the Company's shareholders or completion (for agreements entered into on or after June 30, 2001) of (A) a reorganization or consolidation such that the shareholders immediately prior to the reorganization or consolidation do not, immediately after such reorganization or consolidation, own more than 50% of the voting securities of the reorganized or consolidated organization, or (B) the sale of all or substantially all of the assets of the Company, or (iv) approval by the Company's shareholders of a liquidation or dissolution of the Company.

Brian L. Nygaard, H&R Block, Inc., and H&R Block Financial Advisors, Inc. ("HRBFA") entered into a Termination Agreement dated January 7, 2005, whereby Mr. Nygaard's employment and his Employment Agreement with HRBFA terminated on such date (the "Termination Date"). Under the Termination Agreement, HRBFA agreed to (1) pay Mr. Nygaard $312,000 over a 6-month period beginning on the Termination Date in semi-monthly equal installments of $26,000, (2) allow Mr. Nygaard to remain eligible to participate in those health and welfare plans maintained by the HRBFA offering medical, dental, vision, employee assistance, flexible spending account, life insurance and accidental death and dismemberment insurance benefits during the 6-month period beginning on the Termination Date, (3) allow Mr. Nygaard to exercise any outstanding incentive stock options and nonqualified stock options to purchase shares of the Company's Common Stock that were scheduled to vest between the Termination Date and July 6, 2006, (4) terminate all restrictions on any shares of the Company's Common Stock awarded to Mr. Nygaard that would have lapsed absent a termination of employment in accordance with their terms by reason of time between Termination Date and July 6, 2006, and (5) arrange for outplacements services to Mr. Nygaard for the 12-month period beginning on the Termination Date. In exchange, Mr. Nygaard agreed to, among other things, release the Company and all its subsidiaries from any and all claims.

INFORMATION REGARDING SECURITY HOLDERS

SECURITY OWNERSHIP OF DIRECTORS AND MANAGEMENT >>>

The following table shows as of June 1, 2005 the number of shares of Common Stock beneficially owned by each director and nominee for election as director, by each of the Named Officers and by all directors and executive officers as a group. The number of shares beneficially owned is determined under rules of the Securities and Exchange Commission. The information is not necessarily indicative of beneficial ownership for any other purpose. Under these rules, beneficial ownership includes any shares as to which the individual has either sole or shared voting power or investment power and also any shares that the individual has the right to acquire within 60 days through the exercise of any stock option or other right. Unless otherwise indicated in the footnotes, each person has sole voting

and investment power with respect to shares set forth in the following table. The information provided does not reflect the two-for-one stock split effective August 22, 2005.

	Number of Shares			
Name	Beneficially Owned[1]	Share Units and Share Equivalents[2]	Total	Percent of Class
G. Kenneth Baum	238,267	6,564	244,831	*
Thomas M. Bloch	139,579[3]	0	139,579	*
Robert E. Dubrish	382,983[4]	0	382,983	*
Donna R. Ecton	48,801	2,596	51,397	*
Mark A. Ernst	1,013,063[5]	0	1,013,063	*
Henry F. Frigon	26,667[6]	7,176	33,843	*
Roger W. Hale	63,012	2,595	65,607	*
David Baker Lewis	1,000	0	1,000	*
Tom D. Seip	13,367	1,394	14,761	*
Louis W. Smith	32,667	9,399	42,066	*
Nicholas J. Spaeth	103,334[7]	0	103,334	*
Steven Tait	66,838[8]	0	66,838	*
Rayford Wilkins, Jr	16,667	3,576	20,243	*
Jeffery W. Yabuki	420,556[9]	2,943	423,499	*
All directors and executive officers as a group (25 persons)	2,897,095[10][11]	37,967	2,935,063	1.8%

* Less than 1%

(1) Includes shares that on June 1, 2005 the specified person had the right to purchase as of June 30, 2005 pursuant to options granted in connection with the Company's 1989 Stock Option Plan for Outside Directors or the Company's Long-Term Executive Compensation Plans, as follows: Mr. Baum, 44,667 shares; Mr. Bloch, 16,667 shares; Mr. Dubrish, 301,401 shares; Ms. Ecton, 40,667 shares; Mr. Ernst, 880,004 shares; Mr. Frigon, 22,667 shares; Mr. Hale, 44,667 shares; Mr. Seip, 10,667 shares; Mr. Smith, 28,667 shares; Mr. Spaeth, 78,334 shares; Mr. Tait, 55,000 shares; Mr. Wilkins, 16,667 shares; and Mr. Yabuki, 358,337 shares.

(2) These amounts reflect share unit balances in the Company's Deferred Compensation Plan for Directors, the Company's Deferred Compensation Plan for Executives and/or the Company's Stock Plan for Non-Employee Directors. The value of the share units mirrors the value of the Company's Common Stock. The share units do not have voting rights.

(3) Mr. Bloch has shared voting and shared investment power with respect to 63,800 of these shares. Mr. Bloch disclaims beneficial ownership of 5,000 shares held by M&H Bloch Partners, LP, except to the extent of his partnership interest therein.

(4) Includes 13,258 shares of restricted stock granted under the Company's Long-Term Executive Compensation Plan.

(5) Includes 22,880 shares of restricted stock granted under the Company's Long-Term Executive Compensation Plan and 3,390 shares held in the Company's Employee Stock Purchase Plan (the ''ESPP'').

(6) Mr. Frigon has shared voting and shared investment power with respect to 4,000 of these shares.

(7) Includes 25,000 shares of restricted stock granted under the Company's Long-Term Executive Compensation Plan.

(8) Includes 7,500 shares of restricted stock granted under the Company's Long-Term Executive Compensation Plan.

(9) Includes 10,747 shares of restricted stock granted under the Company's Long-Term Executive Compensation Plan, 1,469 shares held in the ESPP and 1,367 in the Company's 401(k) plan.

(10) Includes shares held by certain family members of such directors and officers or in trusts or custodianships for such members (directly or through nominees) in addition to 2,172,922 shares which such directors and officers have the right to purchase as of June 30, 2005 pursuant to options granted in connection with the Company's stock option plans.

(11) Includes 2,635,695 shares held with sole voting and investment powers and 261,400 shares held with shared voting and investment powers.

PRINCIPAL SECURITY HOLDERS >>>

The following table sets forth the name, address and share ownership of each person or organization known to the Company to be the beneficial owner of more than 5% of the outstanding Common Stock of the Company. The information provided is based upon Schedule 13G filings with the Securities and Exchange Commission and does not reflect the two-for-one stock split effective August 22, 2005.

Name and Address of Beneficial Owner	Shares Beneficially Owned	Percent of Common Stock Outstanding
Warren E. Buffett, Berkshire Hathaway Inc., OBH, Inc., and National Indemnity Company 1440 Kiewit Plaza Omaha, Nebraska 68131	14,350,600	8.7%[1]
Harris Associates L.P. Harris Associates Inc. Two North LaSalle Street, Suite 500 Chicago, Illinois 60602-3790	14,256,435	8.66%[2]
Davis Selected Advisers, L.P. 2949 East Elvira Road, Suite 101 Tucson, Arizona 85706	14,298,071	8.67%[3]

[1] Information as to the number of shares and the percent of Common Stock outstanding is as of December 31, 2004 and is furnished in reliance on the last-filed Schedule 13G of Warren E. Buffett, Berkshire Hathaway Inc., OBH, Inc. and National Indemnity Company filed on February 14, 2005. The Schedule 13G indicates that Mr. Buffett, Berkshire Hathaway, Inc., OBH, Inc. and National Indemnity Company share voting and dispositive power over the shares.

[2] Information as to the number of shares and the percent of Common Stock outstanding is as of December 31, 2004 and is furnished in reliance on the Schedule 13G of Harris Associates L.P., Harris Associates Inc., and Harris Associates Investment Trust, 36-4032559 series designated The Oakmark Select Fund filed on February 11, 2005. The Schedule 13G indicates that the number of shares beneficially owned includes 14,256,435 shares with shared voting power, 2,967,335 shares with sole dispositive power and 11,289,100 shares with shared dispositive power. The Oakmark Select Fund, as series of the Harris Associates Investment Trust, owns 8,259,800 shares (5.01%).

[3] Information as to the number of shares and the percent of Common Stock outstanding is as of December 31, 2004 and is furnished in reliance on the Schedule 13G of Davis Selected Advisers, L.P., filed on March 11, 2005.

OTHER MATTERS

SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE >>>

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's directors, executive officers and beneficial owners of more than 10% of any class of the Company's equity securities to file reports of ownership and changes in ownership of the Company's Common Stock. To the best of the Company's knowledge, all required reports were filed on time and all transactions by the Company's directors and executive officers were reported on time except for failure to timely report on Form 4 for Brad Iversen the disposition of 223 shares as the result of the withholding of stock to pay taxes upon the vesting of Restricted Shares. This failure to timely report was inadvertent and, as soon as the oversight was discovered, the transaction was promptly reported.

SHAREHOLDER PROPOSALS AND NOMINATIONS >>>

For a shareholder proposal to be considered for inclusion in the Company's Proxy Statement for the 2006 Annual Meeting pursuant to Rule 14a-8 of the Securities and Exchange Commission, the Company must receive notice at our offices at 4400 Main Street, Kansas City, Missouri 64111, Attention: Corporate Secretary, on or before March 31, 2006. Applicable Securities and Exchange Commission rules and regulations govern the submission of shareholder proposals and our consideration of them for inclusion in next year's proxy statement and form of proxy.

Pursuant to the Company's bylaws, for any business not included in the proxy statement for the 2006 Annual Meeting to be brought before the meeting by a shareholder, the shareholder must give timely written notice of that business to the Corporate Secretary. To be

timely, the notice must be received no later than June 28, 2006 (45 days prior to August 12, 2006). The notice must contain the information required by the Company's bylaws. Similarly, a shareholder wishing to submit a director nomination directly at an annual meeting of shareholders must deliver written notice of the nomination within the time period described in this paragraph and comply with the information requirements in our bylaws relating to shareholder nominations.

A proxy may confer discretionary authority to vote on any matter at a meeting if we do not receive notice of the matter within the time frames described above. A copy of the Company's bylaws is available on our website at www.hrblock.com under the tab "Our Company" and then under the heading "Block Investors" and then "Corporate Governance," or upon request to: H&R Block, Inc., 4400 Main Street, Kansas City, Missouri 64111, Attention: Corporate Secretary. The Chairman of the meeting may exclude matters that are not properly presented in accordance with the foregoing requirements.

The Board of Directors knows of no other matters which will be presented at the meeting, but if other matters do properly come before the meeting, it is intended that the persons named in the proxy will vote according to their best judgment.

By Order of the Board of Directors
BRET G. WILSON
Secretary

APPENDIX A
H&R BLOCK, INC. BOARD OF DIRECTORS INDEPENDENCE STANDARDS

Pursuant to New York Stock Exchange listing standards, no director qualifies as being an independent director unless the Board of Directors affirmatively determines that the director has no material relationship with H&R Block, Inc. or any of its subsidiaries (collectively, the "Company"), either directly or indirectly as a partner, shareholder or officer of an organization that has a relationship with the Company.

The Board of Directors has established the categorical standards to assist it in determining the independence of directors. Pursuant to these standards, a director will not be considered independent if:

- At any time during the three years immediately preceding the date of determination, the director was an employee of the Company or any of the director's immediate family was an executive officer of the Company.
- At any time during the three years immediately preceding the date of determination, the director (or any of the director's immediate family) received more than $100,000 per year in direct compensation from the Company other than (i) director or committee fees (including fees for service on the board of directors of subsidiary or affiliated companies) and (ii) pension or other forms of deferred compensation for prior service (provided such compensation is not contingent in any way on continued service).
- At any time during the three years immediately preceding the date of determination, the director has been employed by (or affiliated with) a present or former internal or external auditor of the Company that had an auditing relationship with the Company during such three year period or any of the director's immediate family members have been so affiliated or employed in a professional capacity.
- At any time during the three years immediately preceding the date of determination, either the director, or any of the director's immediate family members, has been employed as an executive officer of another company for which an executive officer of the Company serves on the compensation (or equivalent) committee.
- At any time during the three years immediately preceding the date of determination, the Company made payments to, or received payments from, a company, firm or professional entity of which or in which (i) the director is currently an executive officer, partner or employee, or owns in excess of a 10% equity interest or (ii) the director's immediate family members currently is an executive officer or partner or owns in excess of a 10% equity interest; provided that such payments are in an amount exceeding the greater of $1 million or 2% of such other company's consolidated gross revenues for such other company's most recent full fiscal year.
- The director (or any of the director's immediate family) serves as an officer, director or trustee of a charitable organization to which the Company gives directly or indirectly through its foundation, more than $200,000 or 5% of the organization's total annual charitable receipts during its last full fiscal year (whichever is greater).

An individual will be considered to be affiliated with a corporation or other entity if that individual controls, is controlled by or is under common control with the corporation or other entity. An "immediate family member" includes a person's spouse, parents, children, siblings, mothers in law, fathers in law and any one (other than domestic employees) who shares such person's home.

The Board of Directors will determine the independence of any director with a relationship to the Company that is not covered by the above standards.

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APPENDIX B
H&R BLOCK EXECUTIVE PERFORMANCE PLAN
(AS AMENDED)

ARTICLE I. GENERAL

SECTION 1.1 PURPOSE >>> The purpose of the H&R Block Executive Performance Plan (the "Plan") is to attract and retain highly qualified individuals as executive officers; to obtain from each the best possible performance in order to achieve particular business objectives established for H&R Block, Inc. (the "Company") and its subsidiaries; and to include in their compensation package a bonus component intended to qualify as performance-based compensation under Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Code"), which compensation would be deductible by the Company under the Code.

SECTION 1.2 ADMINISTRATION >>> The Plan shall be administered by the Compensation Committee of the Company's Board of Directors (the "Committee") consisting of at least two members, each of whom shall be an "outside director" within the meaning of Section 162(m) of the Code. The Committee shall adopt such rules and guidelines as it may deem appropriate in order to carry out the purpose of the Plan. All questions of interpretation, administration and application of the Plan shall be determined by a majority of the members of the Committee then in office, except that the Committee may authorize any one or more of its members, or any officer of the Company, to execute and deliver documents on behalf of the Committee. The determination of the majority shall be final and binding in all matters relating to the Plan. The Committee shall have authority to determine the terms and conditions of the Awards granted to eligible persons specified in Section 1.3 below.

SECTION 1.3 ELIGIBILITY >>> Awards may be granted only to employees of the Company or any of its subsidiaries who are at the level of Assistant Vice President or at a more senior level and who are selected for participation in the Plan by the Committee. A qualifying employee so selected shall be a "Participant" in the Plan.

ARTICLE II. AWARDS

SECTION 2.1 AWARDS >>> The Committee may grant annual performance-based awards ("Awards") to Participants with respect to each fiscal year of the Company, or a portion thereof (each such fiscal year or a portion thereof to constitute a "Performance Period"), subject to the terms and conditions of the Plan. Awards shall be in the form of cash compensation. Within 90 days after the beginning of a Performance Period, the Committee shall establish (a) performance goals and objectives ("Performance Targets") for the Company and the subsidiaries and divisions thereof for such Performance Period, (b) target awards ("Target Awards") for each Participant, which shall be a specified dollar amount, and (c) schedules or other objective methods for determining the applicable performance percentage ("Performance Percentage") to be multiplied by each portion of the Target Award to which a Performance Target relates in arriving at the actual Award payout amount pursuant to Section 2.4 ("Performance Schedules"). The Committee shall specify the Performance Targets applicable to each Participant for each Performance Period and shall further specify the portion of the Target Award to which each Performance Target shall apply. In no event shall a Performance Schedule include a Performance Percentage in excess of 200%.

SECTION 2.2 PERFORMANCE TARGETS >>> Performance Targets established by the Committee each year shall be based of one or more of the following business criteria: (a) earnings, (b) revenues, (c) sales of products, services or accounts, (d) numbers of income tax returns prepared, (e) margins, (f) earnings per share, (g) return on equity, (h) return on capital, and (i) total shareholder return. For any Performance Period, Performance Targets may be measured on an absolute basis or relative to internal goals, or relative to levels attained in fiscal years prior to the Performance Period.

SECTION 2.3 EMPLOYMENT REQUIREMENT >>> To be eligible to receive payment of an Award, the Participant must have remained in the continuous employ of the Company or its subsidiaries through the end of the applicable Performance Period, provided that, in the event the Participant's employment terminates during the Performance Period due to death, disability or retirement, the Committee may, at its sole discretion, authorize the Company or the applicable subsidiary to pay in full or on a prorated basis an Award determined in accordance with Sections 2.4 and 2.5. For purposes of this Section 2.3, (a) "disability" shall be as defined in the employment practices or

policies of the applicable subsidiary of the Company in effect at the time of termination of employment, and (b) "retirement" shall mean termination of employment with all subsidiaries of the Company by the Participant after either attainment of age 65 or attainment of age 55 and the completion of at least ten (10) years of employment with the Company or its subsidiaries.

SECTION 2.4 DETERMINATION OF AWARDS >>> In the manner required by Section 162(m) of the Code, the Committee shall, promptly after the date on which the necessary financial or other information for a particular Performance Period becomes available, certify the extent to which Performance Targets have been achieved. Using the Performance Schedules, the Committee shall determine the Performance Percentage applicable to each Performance Target and multiply the portion of the Target Award to which the Performance Target relates by such Performance Percentage in order to arrive at the actual Award payout for such portion.

At the time Target Awards are determined, the Committee may specify that the Performance Percentage attributable to any one or more portions of a Participant's Target Award may not exceed the Performance Percentage attributable to any other portion of the Participant's Target Award. In the event such specification is made, actual Award payouts shall be determined accordingly.

SECTION 2.5 LIMITATIONS ON AWARDS >>> The aggregate amount of all Awards under the Plan to any Participant for any Performance Period shall not exceed $2,000,000.

SECTION 2.6 PAYMENT OF AWARDS >>> Payment of Awards shall be made by the Company or the applicable employer subsidiary as soon as administratively practical following the certification by the Committee of the extent to which the applicable Performance Targets have been achieved and the determination of the actual Awards in accordance with Sections 2.4 and 2.5. All Awards under the Plan are subject to withholding, where applicable, for federal, state and local taxes.

SECTION 2.7 ADJUSTMENT OF AWARDS >>> In the event of the occurrence during the Performance Period of any recapitalization, reorganization, merger, acquisition, divestiture, consolidation, spin-off, split-off, combination, liquidation, dissolution, sale of assets, other similar corporate transaction or event, any changes in applicable tax laws or accounting principles, or any unusual, extraordinary or nonrecurring events involving the Company which distorts the performance criteria applicable to any Performance Target, the Committee shall adjust the calculation of the performance criteria, and the applicable Performance Targets as is necessary to prevent reduction or enlargement of Participants' Awards under the Plan for such Performance Period attributable to such transaction or event. Such adjustments shall be conclusive and binding for all purposes.

ARTICLE III. MISCELLANEOUS

SECTION 3.1 NO RIGHTS TO AWARDS OR CONTINUED EMPLOYMENT >>> No employee of the Company or any of its subsidiaries shall have any claim or right to receive Awards under the Plan. Neither the Plan nor any action taken under the Plan shall be construed as giving any employee any right to be retained by the Company or any subsidiary of the Company.

SECTION 3.2 NO LIMITS ON OTHER AWARDS AND PLANS >>> Nothing contained in this Plan shall prohibit the Company or any of its subsidiaries from establishing other special awards or incentive compensation plans providing for the payment of incentive compensation to employees of the Company and its subsidiaries, including any Participants.

SECTION 3.3 RESTRICTION ON TRANSFER >>> The rights of a Participant with respect to Awards under the Plan shall not be transferable by the Participant other than by will or the laws of descent and distribution.

SECTION 3.4 SOURCE OF PAYMENTS >>> The Company and its subsidiaries shall not have any obligation to establish any separate fund or trust or other segregation of assets to provide for payments under the Plan. To the extent any person acquires any rights to receive payments hereunder from the Company or any of its subsidiaries, such rights shall be no greater than those of an unsecured creditor.

SECTION 3.5 EFFECTIVE DATE; TERM; AMENDMENT >>> The Plan is effective as of June 19, 1996, subject to approval by the Company's shareholders at the Company's 1996 annual meeting of shareholders, and shall remain in effect until such time as it shall be terminated by the Board of Directors of the Company. If approval of the Plan meeting the requirements of Section 162(m) of the Code is not obtained at the 1996 annual meeting of shareholders of the Company, then the Plan shall not be effective and any Award made on or after June 19, 1996, shall be void ab initio. The Board of Directors may at any time and from time to time alter, amend, suspend or terminate the Plan in whole or in part.

SECTION 3.6 PROHIBITED OR UNENFORCEABLE PROVISIONS >>> Any provision of the Plan that is prohibited or unenforceable shall be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions of the Plan.

SECTION 3.7 SECTION 162(M) PROVISIONS >>> Any Awards under the Plan shall be subject to the applicable restrictions imposed by Code Section 162(m) and the Treasury Regulations promulgated thereunder, notwithstanding any other provisions of the Plan to the contrary.

SECTION 3.8 GOVERNING LAW >>> The Plan and all rights and Awards hereunder shall be construed in accordance with and governed by the laws of the State of Missouri.

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

FORM 10-K/A
Amendment No. 1

(Mark One)

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

For the fiscal year ended: April 30, 2005

OR

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

For the transition period from to

Commission File Number: 1-6089

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

MISSOURI	**44-0607856**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

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

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

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

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, without par value	New York Stock Exchange Pacific Exchange

Securities registered pursuant to Section 12(g) of the Act:
Common Stock, without par value
(Title of Class)

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

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

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

The aggregate market value of the registrant's Common Stock (all voting stock) held by non-affiliates of the registrant, computed by reference to the price at which the stock was sold on October 31, 2004, was $7,683,275,768.

Number of shares of registrant's Common Stock, without par value, outstanding on June 30, 2005: 331,940,594.

Documents incorporated by reference

The definitive proxy statement relating to the registrant's Annual Meeting of Shareholders, to be held September 7, 2005, is incorporated by reference in Part III to the extent described therein.

H&R BLOCK

2005 FORM 10-K AND ANNUAL REPORT

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INTRODUCTION AND FORWARD LOOKING STATEMENTS

We have again chosen to combine our Annual Report on Form 10-K, which we are required to file annually with the Securities and Exchange Commission ("SEC"), and our Annual Report to Shareholders. We hope that by including all of this information in one document, you will find this Annual Report more useful and informative.

On June 7, 2005, we determined it was appropriate to restate our previously issued consolidated financial statements, including financial statements for the nine months ended January 31, 2005 and financial statements for the fiscal years ended April 30, 2004 and 2003 and all related interim periods. The details of the restatement, including the issues and amounts, are presented in Item 8, note 2 to our consolidated financial statements.

Specified portions of our proxy statement, which will be filed in August 2005, are listed as "incorporated by reference" in response to certain items. Our proxy statement will be printed within our Annual Report and mailed to shareholders in August 2005 and will also be available on our website at *www.hrblock.com*.

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

PART I

ITEM 1. BUSINESS

GENERAL DEVELOPMENT OF BUSINESS >>>

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

H&R BLOCK'S MISSION >>>

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

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

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

RECENT DEVELOPMENTS >>> On October 26, 2004, we issued $400.0 million of 5.125% Senior Notes under our shelf registration statements. The Senior Notes are due on October 30, 2014. The proceeds from the notes were used to repay our $250.0 million in 6¾% Senior Notes, which were due on November 1, 2004. The remaining proceeds were used for working capital, capital expenditures, repayment of other debt and other general corporate purposes. As of April 30, 2005, we had $850.0 million available under our shelf registration statements.

On June 8, 2005, our Board of Directors declared a two-for-one stock split of the Company's Common Stock in the form of a 100% stock distribution, effective August 22, 2005, to shareholders of record as of the close of business on August 1, 2005. All share and per share amounts in this document have been adjusted to reflect the retroactive effect of the stock split.

Developments during fiscal year 2005 within our operating segments are described below in "Description of Business."

FINANCIAL INFORMATION ABOUT INDUSTRY SEGMENTS

See discussion below and in Item 8, note 20 to our consolidated financial statements.

DESCRIPTION OF BUSINESS

TAX SERVICES

GENERAL >>> Our Tax Services segment is primarily engaged in providing tax return preparation and related services and products in the United States and its territories, Canada, Australia and the United Kingdom. Revenues include fees earned for services performed at company-owned retail tax offices, royalties from franchise retail tax offices, sales of Peace of Mind ("POM") guarantees, sales of tax preparation and other software, fees from online tax preparation, and participation in refund anticipation loans ("RALs"). Segment revenues constituted 53.4% of our consolidated revenues for fiscal year 2005, 51.6% for 2004, and 52.2% for 2003.

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

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

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

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

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

The following are some of the services we offer with our tax preparation service:

PEACE OF MIND GUARANTEE >>> The POM guarantee is offered to U.S. clients, whereby we (1) represent our clients if audited by the IRS, and (2) assume the cost, subject to certain limits, of additional taxes owed by a client resulting from errors attributable to one of our tax professionals. The POM program has a per client cumulative limit of $5,000 in additional taxes assessed with respect to the federal, state and local tax returns we prepared for the taxable year covered by the program.

RALs >>> RALs are offered to our U.S. clients by a designated bank through a contractual relationship with HSBC Holdings plc ("HSBC"). An eligible, electronic filing client may apply for a RAL at one of our offices. After meeting certain eligibility criteria, clients are offered the opportunity to apply for a loan from HSBC in amounts up to $9,999 based upon their anticipated federal income tax refund. We simultaneously transmit the income tax return information to the IRS and the lending bank. Within a few days or less after the filing date, the client receives a check or direct deposit in the amount of the loan, less the bank's transaction fee, our tax return preparation fee and other fees for client-selected services. Additionally, qualifying electronic filing clients are eligible to receive their RAL proceeds, less applicable fees, in approximately one hour after electronic filing using the Instant Money service. For a RAL to be repaid, the IRS directly deposits the participating client's federal income tax refund into a designated account at the lending bank. See related discussion of RAL participations below.

RACs >>> Refund Anticipation Checks ("RACs") are offered to U.S. clients who may not wish to obtain a RAL or do not qualify for the RAL program, but who would like to either (1) receive their refund faster and do not have a bank account for the IRS to direct deposit their refund or (2) have their tax preparation fees paid directly out of their refund. A RAC is not a loan and is provided through a contractual relationship with HSBC.

EASY PAY LOANS >>> "EasyPay" revolving loans are offered through a contractual relationship with HSBC to clients whose tax returns reflect a balance due to the IRS. The loan has "same as cash" terms for approximately 90 days.

EXPRESS IRAs >>> Individual retirement accounts ("Express IRAs"), invested in FDIC-insured money market accounts, are offered to U.S. clients as a tax-advantaged retirement savings tool. HRBFA acts as custodian on the accounts, with the funds being invested at insured depository institutions paying competitive money market interest rates.

TAX RETURN PREPARATION COURSES >>> We offer income tax return preparation courses to the public, which teach taxpayers how to prepare income tax returns and provide us with a source of trained tax professionals.

SOFTWARE PRODUCTS >>> We develop and market TaxCut income tax preparation software, H&R Block DeductionPro™,

Kiplinger's Home and Business Attorney and Kiplinger's WILLPower[SM] software products.

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

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

ONLINE TAX PREPARATION >>> We offer a comprehensive range of tax services and products, from tax advice to complete professional and do-it-yourself tax return preparation and electronic filing, through our website at *www.hrblock.com* and *www.taxcut.com*. These websites allow clients to prepare their federal and state income tax returns using the Online Tax Program ("OTP"), access tax tips, advice and tax-related news and use calculators for tax planning.

Beginning with the fiscal year 2003 tax season, we participated in the Free File Alliance ("FFA"). This alliance was created by the tax return preparation industry and the IRS, and allows filers to prepare and file their federal return online at no charge. We feel that this program increases our visibility with new clients, while also providing an opportunity to offer our state return preparation services to these new clients at our regular prices.

CASHBACK PROGRAM >>> We offer a refund discount ("CashBack") program to our customers in Canada. Canadian law specifies the procedures we must follow in conducting the program. In accordance with current Canadian regulations, if a customer's tax return indicates the customer is entitled to a tax refund, we issue a check to the client. The client assigns to us the full amount of the tax refund to be issued by Revenue Canada and the refund check is then sent by Revenue Canada directly to us. In accordance with the law, the discount is deemed to include both the tax return preparation fee and the fee for tax refund discounting. This program is financed by short-term borrowings. The number of returns discounted under the CashBack program in fiscal year 2005 was approximately 581,000, compared to 552,000 in 2004 and 531,000 in 2003. See discussion of the Canadian tax season extension under "Seasonality of Business."

CLIENTS SERVED >>> We, together with our franchisees, served approximately 21.4 million clients worldwide during fiscal year 2005, compared to 21.6 million in 2004 and 21.7 in 2003. See discussion of the Canadian tax season extension under "Seasonality of Business." We served 19.1 million clients in the U.S. during fiscal year 2005, compared to 19.3 million in 2004 and 19.5 million in 2003. "Clients served" includes taxpayers for whom we prepared income tax returns in offices, federal software units sold, online completed and paid federal returns and paid online state returns when no federal return was purchased, as well as taxpayers for whom we provided only paid electronic filing services. Returns for our U.S. clients constituted 15.5% of an IRS estimate of total individual income tax returns filed as of April 29, 2005, compared to 15.7% in 2004 and 16.0% in 2003.

OWNED AND FRANCHISED OFFICES >>> A summary of our company-owned and franchise offices is as follows:

April 30,	**2005**	2004	2003
U.S. OFFICES >>>			
Company-owned offices	**5,811**	5,172	4,688
Company-owned shared locations [1]	**1,296**	996	607
Total company-owned offices	**7,107**	6,168	5,295
Franchise offices	**3,528**	3,418	3,967
Franchise shared locations [1]	**526**	323	95
Total franchise offices	**4,054**	3,741	4,062
	11,161	9,909	9,357
INTERNATIONAL OFFICES >>>			
Canada	**912**	891	910
Australia	**378**	378	362
Other	**10**	7	6
	1,300	1,276	1,278

[1] Shared locations include offices located within Wal-Mart, Sears or other third-party businesses.

Offices in shared locations include 947 offices operated in Wal-Mart stores and 757 offices in Sears stores operated as "H&R Block at Sears." The Wal-Mart agreement is in the process of being extended, with the new agreement expected to expire in May 2007, and the Sears license agreement expires in July 2007, both subject to termination rights.

We offer franchises as a way to expand our presence in the market. Our franchise arrangements provide us with certain rights which are designed to protect our brand. Most of our franchisees receive signs, designated equipment, specialized forms, local advertising, initial training, and supervisory services, and pay us a percentage of gross tax return preparation and related service revenues as a franchise royalty.

From time to time, we have acquired the territories of existing franchisees and other tax return preparation businesses, and will continue to do so if future conditions warrant and satisfactory terms can be negotiated. During fiscal year 2004, we made payments of $243.2 million related to the acquisition of primarily assets and stock in the franchise territories of ten of our former major franchisees. One franchisee is continuing litigation

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

RAL PARTICIPATIONS AND 2003 TAX SEASON WAIVER >>> Since July 1996, we have been a party to agreements with HSBC and its predecessors to participate in RALs provided by a lending bank to H&R Block tax clients. The 1996 agreement was amended and restated in January 2003 and again in June 2003. In the June 2003 agreement, we obtained the right to purchase a 49.9% participation interest in RALs obtained through company-owned and regular franchise offices and a 25% interest in RALs obtained through major franchise offices. The current agreement continues through June 2006. Our purchases of the participation interests are financed through short-term borrowings, and we bear all of the credit risk associated with our interests in the RALs. Revenue from our participation is calculated as the rate of participation multiplied by the fee paid by the borrower to the lending bank. Our RAL participation revenue was $182.8 million and $168.4 million in fiscal years 2005 and 2004, respectively.

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

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

United States and Canada	January – April
Australia	July – October

This year Revenue Canada extended the Canadian tax season to May 2, 2005. Clients served in our Canadian operations in fiscal year 2005 includes approximately 47,500 returns in both company-owned and franchise offices which were accepted by the client on May 1 and 2, 2005. The revenues related to these returns will be recognized in fiscal year 2006.

COMPETITIVE CONDITIONS >>> The retail tax services business is highly competitive. There are a substantial number of tax return preparation firms and accounting firms offering tax return preparation services. Many tax return preparation firms and many firms not otherwise in the tax return preparation business are involved in providing electronic filing and RAL services to the public. Commercial tax return preparers and electronic filers are highly competitive with regard to price, service and reputation for quality. In terms of the number of offices and personal tax returns prepared and electronically filed in offices, online and via our software, we are the largest company providing direct tax return preparation and electronic filing services in the U.S. We also believe we operate the largest tax return preparation businesses in Canada and Australia.

The Digital Tax Solutions businesses compete with a number of companies. Intuit, Inc. is the dominant supplier of tax preparation software and is also our primary competitor in the online tax preparation market. There are many smaller competitors in the online market, as well as free state-sponsored online filing programs. Price competition for tax preparation services increased in fiscal year 2005. In addition, we and Intuit, along with several other online companies participating in the FFA, began offering free online federal return preparation with no income limitations. As a result, the IRS indicated the number of free federal returns filed through the FFA increased 46%. We continue to believe the FFA offers us the opportunity to reach new clients; however, this year's free offer captured new clients who may have otherwise paid for a return through our online business.

GOVERNMENT REGULATION >>> Primary efforts toward the regulation of U.S. commercial tax return preparers have historically been made at the federal level. Federal legislation requires income tax return preparers to, among other things, set forth their signatures and identification numbers on all tax returns prepared by them, and retain all tax returns prepared for three years. Federal laws also subject income tax return preparers to accuracy-related penalties in connection with the preparation of income tax returns. Preparers may be prohibited from further acting as income tax return preparers if they continuously and repeatedly engage in specified misconduct. With certain exceptions, the Internal Revenue Code also prohibits the use or disclosure by income tax return preparers of certain income tax return information without the prior written consent of the taxpayer. In addition, the Gramm-Leach-Bliley Act and

Federal Trade Commission regulations adopted thereunder require income tax preparers to adopt and disclose consumer privacy policies, and provide consumers a reasonable opportunity to "opt-out" of having personal information disclosed to unaffiliated third parties for marketing purposes. Some states have adopted or proposed strict "opt-in" requirements in connection with use or disclosure of consumer information.

We believe the federal legislation regulating commercial tax return preparers and consumer privacy has not had and will not have a material adverse effect on the operations of H&R Block. In addition, no present state statutes of this nature have had a material adverse effect on our business. We cannot, however, predict what the effect may be of the enactment of new statutes or adoption of new regulations.

The federal government regulates the electronic filing of income tax returns in part by requiring individuals and businesses to be accepted into the electronic filing program. Once accepted, electronic filers must comply with all publications and notices of the IRS applicable to electronic filing, provide certain information to the taxpayer, comply with advertising standards for electronic filers, and be subjected to possible monitoring by the IRS, penalties for disclosure or use of income tax return preparation and other preparer penalties, and suspension from the electronic filing program. States that have adopted electronic filing programs for state income tax returns have also enacted laws regulating electronic filers and the advertising and offering of electronic filing services.

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

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

Many of our income tax courses are regulated and licensed in select states. Failure to obtain a tax school license could limit our ability to develop interest in tax preparation as a career or obtain qualified tax professionals.

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

As noted above under "Owned and Franchised Offices," many of the income tax return preparation offices operating in the U.S. under the name "H&R Block" are operated by franchisees. Certain aspects of the franchisor/franchisee relationship have been the subject of regulation by the Federal Trade Commission and by various states. The extent of regulation varies, but relates primarily to disclosures to be made in connection with the grant of franchises and limitations on termination by the franchisor under the franchise agreement. To date, no such regulation has materially affected our business. We cannot predict, however, the effect of applicable statutes or regulations that may be enacted or adopted in the future.

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

Statutes and regulations relating to income tax return preparers, electronic filing, franchising and other areas affecting

the income tax business also exist in other countries in which we operate. In addition, the Canadian government regulates the refund-discounting program in Canada. These laws have not materially affected our international operations.

See discussion in "Risk Factors" for additional information.

MORTGAGE SERVICES

GENERAL >>> Our Mortgage Services segment originates mortgage loans, services non-prime mortgage loans and sells and securitizes mortgage loans and residual interests in the U.S. Revenues primarily consist of gains from sales and securitizations of mortgage assets, accretion on residual interests and servicing fee income. Segment revenues constituted 28.2% of our consolidated revenues for fiscal year 2005 and 31.2% for 2004 and 30.8% for 2003.

We originate both non-prime and prime mortgage loans. Non-prime mortgages are those that may not be offered through government-sponsored loan agencies and typically involve borrowers with limited income documentation, high levels of consumer debt or past credit problems. Even though these borrowers have credit problems, they also tend to have equity in the property that will be used to secure the loan. Prime mortgages are those that may be offered through government sponsored loan agencies. We conduct business through four channels:

- Option One's wholesale origination channel works with independent brokers throughout the U.S. to fund non-prime mortgage loans through a national branch network. Wholesale originations represent the majority of Option One's total loan production.
- HRBMC originates residential mortgage loans directly to retail consumers through various sales channels, including 37 loan production offices, of which four are regional offices, in 26 states in fiscal year 2005.
- Option One's national accounts channel forms partnerships with financial institutions, including national and regional banks, to allow them to offer non-prime loans.
- Option One's bulk acquisitions channel specializes in the purchase of performing non-prime mortgage loan pools.

Option One is headquartered in Irvine, California and operates in 48 states by serving 42,000 mortgage broker locations and through its network of 36 wholesale loan production branches and six national accounts branches. HRBMC, a wholly-owned subsidiary of Option One, is a retail mortgage lender for prime, non-prime and government loans and is licensed to conduct business in all 50 states. HRBMC is an approved seller/servicer for Fannie Mae and Freddie Mac and is HUD authorized to originate and underwrite FHA and VA mortgage loans.

LOAN ORIGINATION >>> The following table details our originations by channel for fiscal years 2005, 2004 and 2003:

(in 000s)

Year Ended April 30,	2005	2004	2003
Wholesale	**$ 21,841,783**	$ 16,828,138	$ 11,434,138
Retail	**4,023,914**	3,105,021	2,918,378
National accounts	**3,974,224**	2,642,944	1,814,092
Bulk acquisitions	**1,161,803**	679,910	411,013
	$ 31,001,724	$ 23,256,013	$ 16,577,621

Information regarding our non-prime loan originations is as follows:

(dollars in 000s)

Year Ended April 30,	2005	2004	2003
Loan type:			
2-year ARM	**61.6%**	63.4%	70.3%
3-year ARM	**4.0%**	5.2%	5.1%
Fixed 1st	**17.7%**	28.7%	23.9%
Fixed 2nd	**3.8%**	1.6%	0.7%
Interest only 1st	**12.6%**	0.7%	– %
Other	**0.3%**	0.4%	– %
Loan purpose:			
Cash-out refinance	**63.5%**	67.1%	64.9%
Purchase	**30.8%**	26.0%	26.9%
Rate or term refinance	**5.7%**	6.9%	8.2%
Loan characteristics:			
Average loan size	**$ 160**	$ 151	$ 144
Weighted-average loan-to-value	**78.9%**	78.1%	78.7%
Weighted-average FICO score	**614**	608	604

WHOLESALE. Wholesale loan originations involve an independent broker who assists the borrower in completing the loan application, which includes securing information regarding their assets, liabilities, income, credit history, employment history and personal information. We require a credit report on each applicant from an industry-recognized credit reporting company. In evaluating an applicant's credit history, we use credit bureau risk scores, generally known as a FICO score, which is a statistical ranking of likely future credit performance developed by Fair, Isaac & Company and provided by the three national credit data repositories. Qualified independent appraisers are required to appraise mortgaged properties used to secure mortgage loans. The broker then identifies a lender who offers a loan product best suited to the borrower's financial

needs. No one broker currently originates more than 0.6% of our total non-prime production.

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

RETAIL. HRBMC originates our retail mortgage loans. In fiscal year 2005, 75% of our retail originations were non-prime and 25% were prime, compared to 59% and 41%, respectively, in 2004. These loans are processed by loan officers in HRBMC offices. Approximately one-third of these offices are co-located with our retail tax offices. The co-located offices are key to working towards our mission of becoming our clients' tax and financial partner. During fiscal year 2005, approximately 35% of HRBMC's loans were made to existing H&R Block clients compared to 49% in 2004.

The application and approval process in our retail locations is similar to those described above under "Wholesale." Retail mortgage loans are originated with the intent to sell.

SALE AND SECURITIZATION OF LOANS >>> Substantially all non-prime mortgage loans are sold daily to qualifying special purpose entities ("Trusts"). See discussion of our loan sale and securitization process in Item 7, under "Off-Balance Sheet Financing Arrangements."

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

SERVICING >>> Loan servicing involves collecting and remitting mortgage loan payments, making required advances, accounting for principal and interest, holding escrow for payment of taxes and insurance and contacting delinquent borrowers. We receive loan-servicing fees monthly over the life of the mortgage loans. We only service non-prime mortgage loans. At the end of fiscal year 2005, we serviced 435,290 loans totaling $68.0 billion, compared to 324,364 loans totaling $45.3 billion at April 30, 2004 and 246,463 loans totaling $31.3 billion at April 30, 2003.

The following table summarizes our servicing portfolio by origin and includes related mortgage servicing rights ("MSRs") as of April 30, 2005 and the rate we earned on each type of servicing during fiscal year 2005:

(dollars in 000s)

Type of Servicing	Principal Balance	MSR Balance	Rate Earned
Originated	**$ 47,376,295**	**$ 166,614**	**0.41%**
Sub-servicing	**20,450,482**	**–**	**0.22%**
Purchased	**167,687**	**–**	**0.51%**
Total	**$ 67,994,464**	**$ 166,614**	**0.36%**

When non-prime loans are sold or securitized, we generally retain the right to service the loans, which results in MSR assets and liabilities being recorded on our balance sheet. Assumptions used in estimating the value of MSRs are discussed in Item 8, note 1 to our consolidated financial statements. In addition to servicing loans we originate, we also service non-prime loans originated by other lenders, designated in the above table as sub-servicing. MSRs are recorded only in conjunction with our originated or purchased loan-servicing portfolio.

GEOGRAPHIC DISTRIBUTION >>> The following table details the percent of non-prime loan origination volume and our loan origination branches by state, excluding our Retail channel, for fiscal years 2005 and 2004:

	2005		2004	
State	Percent of Volume	Number of Branches	Percent of Volume	Number of Branches
California	**21.8%**	**8**	18.8%	5
New York	**11.5%**	**2**	14.4%	2
Massachusetts	**8.4%**	**2**	10.2%	1
Florida	**7.2%**	**4**	6.4%	4
New Jersey	**5.3%**	**3**	5.1%	3
Other	**45.8%**	**23**	45.1%	25

COMPETITIVE CONDITIONS >>> Both the non-prime and prime sectors of the residential mortgage loan market are highly competitive. The principal methods of competition are price, service and product differentiation. There are a substantial number of companies competing in the residential loan market, including mortgage banking companies, commercial banks,

savings associations, credit unions and other financial institutions. There are also numerous companies competing in the business of servicing non-prime loans. No one firm is a dominant supplier of non-prime and prime mortgage loans or a dominant servicer of non-prime loans. *Inside B&C Lending* ranked Option One as the number seven originator, based on market share as of December 31, 2004, and the number four servicer, based on servicing volume as of December 31, 2004, of non-prime loans in the industry.

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

GOVERNMENT REGULATION >>> Mortgage loans purchased, originated and/or serviced are subject to federal laws and regulations, including:

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

Under environmental legislation and case law applicable in certain states, it is possible that liability for environmental hazards in respect of real property may be imposed on a holder of a deed to the property, which may impair the underlying collateral.

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

In recent years, there has been a noticeable increase in state, county and municipal statutes, ordinances and regulations that prohibit or regulate so-called "predatory lending" practices. Predatory lending statutes such as HOEPA, regulate "high-cost loans," which are defined separately by each state, county or municipal statute, regulation or ordinance, but generally include mortgage loans with interest rates exceeding a (1) specified margin over the Treasury Index for a comparable maturity, or (2) designated percentage of points and fees. Statutes, ordinances and regulations that regulate high-cost loans generally prohibit mortgage lenders from engaging in certain defined practices, or require mortgage lenders to implement certain practices, in connection with any mortgage loans that fit within the definition of a high-cost loan. We do not originate loans which meet the definition of high-cost loans under any law.

Certain state laws restrict or prohibit prepayment penalties on mortgage loans, and we relied on the federal Alternative Mortgage Transactions Parity Act ("Parity Act") and related rules issued in the past by the Office of Thrift Supervision ("OTS") to preempt state limitations on prepayment penalties. In September 2003, the OTS released a new rule that reduced the scope of the Parity Act preemption effective July 1, 2004 and, as a result, we can no longer rely on the Parity Act to preempt state restrictions on prepayment penalties. The elimination of this federal preemption requires compliance with state restrictions on prepayment penalties. These restrictions prohibit us from charging any prepayment penalty in six states and restrict the amount or duration of prepayment penalties that we may impose in an additional eleven states. This places us at a competitive disadvantage relative to financial institutions that continue to enjoy federal preemption of such state restrictions. Such institutions can charge prepayment penalties without regard to state restrictions and, as a result, may be able to offer loans with interest rate and loan fee structures that are more attractive than the interest rate and loan fee structures that we are able to offer.

See discussion in "Risk Factors" for additional information.

BUSINESS SERVICES

GENERAL >>> Our Business Services segment offers middle-market companies accounting, tax and consulting services. We have continued to expand the services we offer our clients by adding wealth management, retirement resources, payroll services, corporate finance and financial process outsourcing. Segment revenues constituted 13.0% of our consolidated revenues for fiscal year 2005, 11.8% for 2004 and 11.6% for 2003.

This segment consists primarily of RSM McGladrey, Inc., which provides tax, accounting, and business consulting services in

more than 90 offices in 23 states and offers services in 18 of the top 25 U.S. markets.

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

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

RELATIONSHIP WITH MCGLADREY & PULLEN, LLP >>> By regulation, we cannot provide audit and attest services. McGladrey & Pullen, LLP ("M&P"), a public accounting firm, provides audit and review services and other services in which M&P issues written reports on client financial statements. Through an administrative services agreement with M&P, we provide accounting, payroll, human resources and other administrative services to M&P and receive a management fee for these services. We also have a cost-sharing arrangement with M&P, whereby they reimburse us for the costs of certain items, mainly supplies and for the use of RSM owned property and equipment. M&P is a limited liability partnership with its own governing body and, accordingly, is a separate legal entity and is not an affiliate. Some partners and employees of M&P are also our employees.

SEASONALITY OF BUSINESS >>> Revenues for this segment are largely seasonal in nature, with peak revenues occurring during January through April.

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

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

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

We and M&P have jointly developed and implemented policies, procedures and controls designed to safeguard M&P's independence and integrity as an audit firm in compliance with applicable regulations and professional responsibilities. These policies, procedures and controls are designed to monitor and prevent violations of applicable independence rules and include, among others, (1) informing our officers, directors and other members of management concerning auditor independence matters, (2) procedures for monitoring securities ownership, (3) communicating with SEC audit clients regarding the SEC's interpretation and application of relevant independence rules and guidelines, and (4) requiring RSM employees to comply with M&P's independence and relationship policies (including M&P's independence compliance questionnaire procedures). We believe these policies, procedures and controls are adequate, although there can be no assurances they will ensure compliance with applicable independence rules and requirements. Any

noncompliance could cause M&P to lose the ability to perform audits of financial statements filed with the SEC.

See discussion in "Risk Factors" for additional information.

INVESTMENT SERVICES

GENERAL >>> Our Investment Services segment provides brokerage services and investment planning through HRBFA to our clients in the U.S. Services offered to our customers include traditional brokerage services, as well as annuities, insurance, fee-based accounts, online account access, equity research and focus lists, model portfolios, asset allocation strategies, and other investment tools and information. Segment revenues constituted 5.4% of our consolidated revenues for fiscal years 2005, 2004 and 2003.

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

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

CUSTOMER ACTIVITY >>> Customer trades in fiscal year 2005 totaled approximately 0.9 million, compared to approximately 1.0 million in 2004 and approximately 0.9 million in 2003. Average revenue per trade increased to $123.33 in fiscal year 2005, up from $119.36 in 2004 and $120.15 in 2003. We had 431,749 traditional brokerage accounts at April 30, 2005, compared to 463,736 at 2004 and 501,001 at 2003.

FINANCIAL SERVICES OFFERINGS >>> We offer a full range of financial services, including financial planning, college savings products, flexible brokerage accounts with cash management features, and a comprehensive line of insurance annuity products. Clients may also open professionally managed accounts.

As previously discussed in "Tax Services," we offer our tax clients the opportunity to open an Express IRA through HRBFA as a part of the tax return preparation process. Clients opened approximately 106,500 Express IRAs during tax season 2005, approximately 145,400 in 2004 and approximately 105,400 in 2003.

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

FINANCIAL ADVISORS >>> Key to our future success is retention and recruiting productive financial advisors. One of our key initiatives in fiscal year 2005 was to build revenues through the addition of financial advisors. During fiscal years 2005 and 2004, we added 258 and 255 advisors, respectively. These additions were offset by attrition of 233 and 230 advisors, respectively. Our overall retention rate for fiscal year 2005 was approximately 77%, essentially flat with the prior year. The retention rate for our higher-producing advisors was approximately 92%, down slightly from 93% in 2004. Advisor productivity by recruitment class is as follows:

(in 000s)

	Revenue Per Advisor	Total Production Revenues
Fiscal year 2005 >>>		
Pre-2003 class	**$ 230**	**$ 121,342**
2003 recruits	**114**	**16,416**
2004 recruits	**98**	**19,941**
2005 recruits	**65**	**8,203**
Fiscal year 2004 >>>		
Pre-2003 class	$ 216	$ 135,128
2003 recruits	84	17,717
2004 recruits	61	7,664

Financial advisors generally reach full productivity levels approximately 24 to 36 months after they join our company.

PARTNERING WITH TAX PROFESSIONALS >>> The H&R Block Preferred Partner Program℠ facilitates strategic, referral-based partnerships between tax professionals and financial advisors. The program includes the Licensed Referral Tax Professional ("LRTP") program and, new for fiscal year 2005, a non-licensed option, which allows non-licensed tax professionals to gain additional rewards and recognition when making qualified client referrals to financial advisor partners. The LRTP program helps tax professionals become licensed to sell securities, teaming them with a financial advisor and providing a commission to the LRTP for business referred to Investment Services.

As of April 30, 2005, our Preferred Partner Program had 6,442 active tax partners, of which 686 were licensed. We had 461 licensed tax partners at the end of fiscal year 2004. As a result of this initiative, we added 18,164 new customer accounts and assets totaling $573.0 million during the current fiscal year. We will continue to increase the number of tax partners in the coming year.

INTEGRATED ONLINE SERVICES >>> We have an online investment center on our website at *www.hrblock.com*. Online users have the opportunity to open accounts, obtain research, create investment plans, buy and sell securities, and view the status of their accounts.

OFFICE LOCATIONS >>> HRBFA is authorized to do business as a broker-dealer in all 50 states, the District of Columbia and Puerto Rico. At the end of fiscal year 2005, we operated 257 branch offices, compared to approximately 358 offices in 2004 and 600 in 2003. The reduced number of branch offices is primarily due to the evolution of our tax-partnering program, which now locates financial advisors in retail tax offices. At April 30, 2005, we had 94 offices co-located with retail tax and mortgage offices. We believe the existence of these locations contributes to our growth and client satisfaction.

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

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

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

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

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

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

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

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

See discussion in "Risk Factors" for additional information.

SERVICE MARKS, TRADEMARKS AND PATENTS >>>

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

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

EMPLOYEES >>>

We have approximately 13,400 regular full-time employees. The highest number of persons we employed during the fiscal year ended April 30, 2005, including seasonal employees, was approximately 133,800.

RISK FACTORS >>>

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

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

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

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

INTERNAL CONTROL CERTIFICATION >>> We have documented and tested our internal control procedures in accordance with various SEC rules governing Section 404 of the Sarbanes-Oxley Act ("SOX 404"). SOX 404 requires us to assess the effectiveness of our internal controls over financial reporting annually, and obtain an opinion on these controls from our Independent Registered Public Accounting Firm. We may encounter problems or delays in completing the review and evaluation, the implementation of improvements and the receipt of a positive attestation, or any attestation at all, by our independent auditors. Additionally, management's assessment of our internal controls over financial reporting may identify deficiencies that need to be addressed in our internal controls over financial reporting or other matters that may raise concerns for investors. As a part of Management's assessment of our internal controls over financial reporting as of April 30, 2005, a material weakness was identified in the Company's accounting for income taxes. The material weakness in internal controls resulted from insufficient resources in the corporate tax function to accurately identify, evaluate and report, in a timely manner, non-routine and complex transactions. The Company also determined that it had not completed the requisite historical analysis and related reconciliations to ensure tax balances were appropriately stated prior to the completion of the Company's internal control activities. These deficiencies resulted in errors in the Company's accounting for income taxes. These errors were corrected prior to issuance of the consolidated financial statements as of and for the year ended April 30, 2005. As a result, KPMG has issued an adverse opinion with respect to our internal controls over financial reporting and their report is included in Item 8. Should we, or our independent auditors, determine in future periods that we have additional material weaknesses in our internal controls over financial reporting, our results of

operations or financial condition may be adversely affected and the price of our common stock may decline.

OPERATIONAL RISK >>> There is a risk of loss resulting from inadequate or failed processes or systems, theft or fraud. These can occur in many forms including, among others, errors, business interruptions, inappropriate behavior of or misconduct by our employees or those contracted to perform services for us, and vendors that do not perform in accordance with their contractual agreements. These events can potentially result in financial losses or other damages. We rely on internal and external information and technological systems to manage our operations and are exposed to risk of loss resulting from breaches in the security, or other failures of these systems. Replacement of our major operational systems could have a significant impact on our ability to conduct our core business operations and increase our risk of loss resulting from disruptions of normal operating processes and procedures that may occur during the implementation of new information and transaction systems.

TAX SERVICES

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

REFUND ANTICIPATION LOANS >>> Changes in government regulation related to RALs could adversely affect our ability to offer RALs or our ability to purchase participation interests. Changes in IRS practices could adversely affect our ability to use the IRS debt indicator to limit our bad debt exposure. Changes in any of these, as well as possible litigation related to RALs, may adversely affect our results of operations. See discussion of RAL litigation in Item 3, "Legal Proceedings."

MORTGAGE SERVICES

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

MARKET RISKS >>> Our day-to-day operating activities of originating and selling mortgage loans have many aspects of interest rate risk. Additionally, the valuation of our retained residual interests and mortgage servicing rights includes many estimates and assumptions made by management surrounding interest rates, prepayment speeds and credit losses. Variation in interest rates or the factors underlying our assumptions could affect our results of operations. See Item 7A, under "Mortgage Services," for discussion of interest rate risk, and Item 7, under "Critical Accounting Policies," for discussion of our valuation methodology.

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

In 2002, the Federal Reserve Board adopted changes to Regulation C promulgated under the HMDA. Among other things, the new regulations require lenders to report pricing data on loans with annual percentage rates that exceed the yield on treasury bills with comparable maturities by 3%. The expanded reporting takes effect in 2004 for reports filed in 2005. We anticipate that a majority of our loans would be subject to the expanded reporting requirements. The expanded reporting does not provide for additional loan information such as credit risk, debt-to-income ratio, loan-to-value ratio, documentation level or other salient loan features. However, reported information may lead to increased litigation as the information could be misinterpreted by third parties and could adversely affect our results of operations.

COUNTERPARTY CREDIT RISK >>> Derivative instruments involve counterparty credit risk, which is the risk that a counterparty may fail to perform on its contractual obligations. We manage this risk through the use of a policy that includes credit standard guidelines, counterparty diversification, monitoring of counterparty financial condition, use of master netting agreements with counterparties, and exposure limits based on counterparty credit, exposure amount and management risk tolerance. The policy is reviewed on an annual basis and as conditions warrant. See Item 7A, under "Mortgage Services," and Item 8, note 9 to our consolidated financial statements for discussion of our derivative instruments.

REAL ESTATE MARKET >>> Our residual interests and beneficial interest in Trusts are secured by mortgage loans, which are in turn secured by residential real estate. Any material decline in real estate values would likely result in higher delinquencies, defaults and foreclosures. Additionally, a significant portion of the mortgage loans we originate or service is secured by properties in California. A decline in the economy or the residential real estate market values, or the occurrence of a natural disaster not covered by standard homeowners' insurance policies, such as an earthquake, hurricane or wildfire, could decrease the value of mortgaged properties in California. Any sustained period of increased delinquencies, foreclosures or losses could harm our ability to originate and sell loans, the prices we receive on our loans, or the values of our mortgage servicing rights and residual interests in securitizations, which could adversely affect our financial condition and results of operations.

BUSINESS SERVICES

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

INVESTMENT SERVICES

REGULATORY ENVIRONMENT >>> The broker-dealer industry has recently come under increased scrutiny by federal and state regulators and self-regulatory agencies and, as a result, more focus has been placed on compliance issues. If we do not comply with these regulations, it could result in regulatory actions and negative publicity, which could adversely affect our results of operations and our ability to recruit and retain qualified advisors. Negative public opinion about our industry could damage our reputation even if we are in compliance with such regulations.

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

RECRUITING AND RETENTION OF FINANCIAL ADVISORS >>> Attracting and retaining experienced financial advisors is extremely competitive in the investment industry. Additionally, in this industry, clients tend to follow their advisors, regardless of their affiliated investment firm. The inability to recruit and retain qualified and productive advisors, may adversely affect our results of operations.

RECURRING OPERATING LOSSES >>> Continuing operating losses in our Investment Services segment may impact the valuation of goodwill and intangible assets. Such losses could also necessitate additional capital contributions to comply with regulatory requirements. The inability to operate this segment in a profitable manner may adversely affect our results of operations.

AVAILABILITY OF REPORTS AND OTHER INFORMATION >>>

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

Copies of the following corporate governance documents are posted on our website: (1) The Amended and Restated Articles of Incorporation of H&R Block, Inc., (2) The Amended and Restated Bylaws of H&R Block, Inc., (3) The H&R Block, Inc. Corporate Governance Guidelines, (4) the H&R Block, Inc. Code of Business Ethics and Conduct, (5) the H&R Block, Inc. Audit Committee Charter, (6) the H&R Block, Inc. Governance and Nominating Committee Charter, and (7) the H&R Block, Inc. Compensation Committee Charter. If you would like a printed copy of any of these corporate governance documents, please send your request to the Office of the Secretary, H&R Block, Inc., 4400 Main Street, Kansas City, Missouri 64111.

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

ITEM 2. PROPERTIES

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

Most of our tax offices, except those in shared locations, are operated under leases throughout the U.S. Our Canadian executive offices are located in a leased office in Calgary, Alberta. Our Canadian tax offices are operated under leases throughout Canada.

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

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

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

We began construction of new corporate headquarters during fiscal year 2005, which will allow us to consolidate the majority of our Kansas City-based personnel into one facility. The new building will be located in downtown Kansas City, Missouri and we expect it to be completed in fiscal year 2007.

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

ITEM 3. LEGAL PROCEEDINGS

The information below should be read in conjunction with the information included in Item 8, note 18 to our consolidated financial statements.

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

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

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

Lynne A. Carnegie, et al. v. Household International, Inc., H&R Block, Inc., et al., (formerly Joel E. Zawikowski, et al. v. Beneficial National Bank, H&R Block, Inc., Block Financial Corporation, et al.) Case No. 98 C 2178, United States District Court for the Northern District of Illinois, Eastern Division, instituted on April 18, 1998. In March 2004, the court either dismissed or decertified all of the plaintiffs' claims other than part of one count alleging violations of the racketeering and conspiracy provisions of the Racketeer Influenced and Corrupt Organizations Act. On May 9, 2005, the parties agreed to a settlement, subject to court approval. The settlement agreement provided for (i) the defendants to pay $110 million in cash and $250 million face value in freely transferable rebate coupons and (ii) all persons who applied for and obtained a RAL through an H&R Block office or certain lenders from January 1, 1987 through April 29, 2005 (the "Carnegie Settlement Class") to release all claims against us regarding RALs or certain services provided in

connection with RALs. The settlement agreement also specified required business practices, procedures, disclosures and forms for use in making RALs and barred members of the Carnegie Settlement Class from commencing any other claims or actions against us regarding RALs made pursuant to such practices, procedures, disclosures and forms (the "Forward Looking Protections"). In negotiating the settlement, we ascribed significant value to the Forward-Looking Protections and the expanded class of plaintiffs to be covered by the settlement in determining the amount of consideration we were willing to pay in settling the case. On May 26, 2005, the court denied approval of the proposed settlement. As discussed in our Form 8-K dated May 9, 2005, we initially recorded litigation reserves of approximately $38.0 million, after taxes, based on the May 9, 2005 proposed settlement. As a result of the May 26, 2005 court ruling to deny the settlement, we reversed our legal reserves to amounts representing our assessment of our probable loss. This class action case is scheduled to go to trial on October 17, 2005. We intend to continue defending the case vigorously, but there are no assurances as to its outcome.

Sandra J. Basile, *et al. v. H&R Block*, *Inc.*, *et al*, April Term 1992 Civil Action No. 3246 in the Court of Common Pleas, First Judicial District of Pennsylvania, Philadelphia County, instituted on April 23, 1993. The court decertified the class on December 31, 2003. Plaintiffs appealed the decertification, and the Pennsylvania appellate court denied the plaintiff's appeal. The Pennsylvania appellate court subsequently granted plaintiff's motion for *en banc* review of its earlier denial of plaintiff's appeal. Re-argument is expected to occur in September 2005.

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

Deandra D. Cummins, *et al. v. H&R Block*, *Inc.*, *et al.*, Case No. 03-C-134 in the Circuit Court of Kanawha County, West Virginia, instituted on January 22, 2003. This class action case is scheduled to go to trial on October 17, 2005.

Lynn Becker v. H&R Block, Case No. CV-2004-03-1680 in the Court of Common Pleas, Summit County, Ohio, instituted on April 15, 2004. The case was removed to federal court, and plaintiffs moved to remand the case back to state court. The case currently is stayed pending the U.S. District Court's ruling on plaintiff's motion to remand and defendant's motion to compel arbitration.

Joyce Green, *et al. v. H&R Block*, *Inc.*, *Block Financial Corporation*, *et al.*, Case No. 97195023, in the Circuit Court for Baltimore City, Maryland, instituted on July 14, 1997. This case is awaiting trial. No trial date has been set.

PEACE OF MIND LITIGATION >>> *Lorie J. Marshall*, *et al. v. H&R Block Tax Services*, *Inc.*, *et al.*, Civil Action 2003L000004, in the Circuit Court of Madison County, Illinois, is a class action case filed on January 18, 2003, that was granted class certification on August 27, 2003. Plaintiffs' claims consist of five counts relating to the POM program under which the applicable tax return preparation subsidiary assumes liability for additional tax assessments attributable to tax return preparation error. The plaintiffs allege that the sale of POM guarantees constitutes (i) statutory fraud by selling insurance without a license, (ii) an unfair trade practice, by omission and by "cramming" (*i.e.*, charging customers for the guarantee even though they did not request it or want it), and (iii) a breach of fiduciary duty. In August 2003, the court certified the plaintiff classes consisting of all persons who from January 1, 1997 to final judgment (i) were charged a separate fee for POM by "H&R Block" or a defendant H&R Block class member; (ii) reside in certain class states and were charged a separate fee for POM by "H&R Block" or a defendant H&R Block class member not licensed to sell insurance; and (iii) had an unsolicited charge for POM posted to their bills by "H&R Block" or a defendant H&R Block class member. Persons who received the POM guarantee through an H&R Block Premium office and persons who reside in Alabama are excluded from the plaintiff class. The court also certified a defendant class consisting of any entity with names that include "H&R Block" or "HRB," or are otherwise affiliated or associated with H&R Block Tax Services, Inc., and that sold or sells the POM product. The trial court subsequently denied the defendants' motion to certify class certification issues for interlocutory appeal. Discovery is proceeding. No trial date has been set.

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

We believe the claims in the POM action are without merit, and we intend to defend them vigorously. The amounts claimed in the POM actions are substantial, however, and there can be no assurances, as to the outcome of these pending actions individually or in the aggregate. Likewise, there can be no assurances regarding the impact of these actions on our consolidated financial statements.

OTHER CLAIMS AND LITIGATION >>> As reported in a current report on Form 8-K dated November 8, 2004, the NASD brought charges against HRBFA regarding the sale by HRBFA of

Enron debentures in 2001. A hearing for this matter is scheduled for May 2006. Two private civil actions subsequently were filed against HRBFA concerning the matter raised in the NASD's charges. Both of these private actions subsequently were dismissed without prejudice, although one of the actions has since been refiled. We intend to defend the NASD charges vigorously, although there can be no assurances regarding the outcome and resolution of the matter.

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

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

We have from time to time been party to claims and lawsuits not discussed herein arising out of our business operations. These claims and lawsuits include actions by individual plaintiffs, as well as cases in which plaintiffs seek to represent a class of similarly situated customers. The amounts claimed in these claims and lawsuits are substantial in some instances, and the ultimate liability with respect to such litigation and claims is difficult to predict. Some of these claims and lawsuits pertain to RALs, the electronic filing of customers' income tax returns and the POM guarantee program. We believe we have meritorious defenses to each of these claims, and we are defending or intend to defend them vigorously, although there is no assurance as to their outcome.

In addition to the aforementioned types of cases, we are parties to claims and lawsuits that we consider to be ordinary, routine litigation incidental to our business, including claims and lawsuits ("Other Claims") concerning investment products, the preparation of customers' income tax returns, the fees charged customers for various products and services, losses incurred by customers with respect to their investment accounts, relationships with franchisees, denials of mortgage loans, contested mortgage foreclosures, other aspects of the mortgage business, intellectual property disputes, and contract disputes. We believe we have meritorious defenses to each of the Other Claims, and we are defending, or intend to defend, them vigorously. While we cannot provide assurance that we will ultimately prevail in each instance, we believe the amount, if any, we are required to pay in the discharge of liabilities or settlements in these Other Claims will not have a material adverse effect on our consolidated financial statements.

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

No matters were submitted to a vote of security holders during the fourth quarter of fiscal year 2005. Information regarding executive officers is contained in Item 10 of this report.

PART II

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

H&R Block's common stock is traded principally on the NYSE and is also traded on the Pacific Exchange. The information called for by this item with respect to H&R Block's common stock appears in Item 8, note 21 to our consolidated financial statements. The remaining information called for by this item relating to "Securities Authorized for Issuance under Equity Compensation Plans" is reported in Item 8, note 13 to our consolidated financial statements. On July 5, 2005, there were 30,909 shareholders of record and the closing stock price on the NYSE was $29.37 per share.

A summary of our purchases of H&R Block common stock during the fourth quarter of fiscal year 2005, excluding the impact of the stock split, is as follows:

(shares in 000s)

	Total Number of Shares Purchased[2]	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs[1]	Maximum Number of Shares that May Be Purchased Under the Plans or Programs[1]
February 1 – February 28	**1**	**$ 50.82**	**–**	**15,104**
March 1 – March 31	**2**	**$ 51.87**	**–**	**15,104**
April 1 – April 30	**1**	**$ 50.70**	**–**	**15,104**

[1] On June 11, 2003, our Board of Directors approved the repurchase of 20 million shares of H&R Block common stock. This authorization has no expiration date. On June 9, 2004, our Board of Directors approved the additional repurchase of 15 million shares of H&R Block common stock. This authorization has no expiration date.

[2] The total number of shares purchased were purchased in connection with funding employee income tax withholding obligations arising upon the exercise of stock options or the lapse of restrictions on restricted shares.

ITEM 6. SELECTED FINANCIAL DATA

We derived the selected historical consolidated financial data presented below as of and for each of the five years in the period ended April 30, 2005 from our consolidated financial statements. The data for the periods prior to fiscal year 2005 has been restated to reflect corrections to gain on sale accounting, incentive compensation accruals, lease accounting, capitalization of certain branch office costs, acquisition accounting and income taxes as more fully described in Item 8, note 2 to our consolidated financial statements. The data set forth below should be read in conjunction with Item 7 and our consolidated financial statements.

The impact of the restatement on fiscal year 2002 resulted in an increase in net income of $6.9 million, or $.02 per basic and diluted share, and a decrease of $9.5 million in total assets. The impact on fiscal year 2001 resulted in an increase in net income of $1.5 million, or $.00 per basic and diluted share, and an increase of $4.9 million in total assets.

(in 000s, except per share amounts)

April 30,	**2005**	Restated 2004	Restated 2003	Restated 2002	Restated 2001
Revenues	**$ 4,420,019**	$ 4,247,880	$ 3,731,126	$ 3,311,943	$ 2,982,157
Net income before change in accounting principle	**635,857**	715,608	477,615	441,287	278,211
Net income	**635,857**	709,249	477,615	441,287	282,625
Basic earnings per share:					
Net income before change in accounting principle	**$ 1.92**	$ 2.02	$ 1.33	$ 1.21	$ .76
Net income	**1.92**	2.00	1.33	1.21	.77
Diluted earnings per share:					
Net income before change in accounting principle	**$ 1.88**	$ 1.98	$ 1.30	$ 1.17	$ .75
Net income	**1.88**	1.96	1.30	1.17	.76
Total assets	**$ 5,539,283**	$ 5,232,732	$ 4,666,502	$ 4,396,731	$ 4,170,980
Long-term debt	**923,073**	545,811	822,302	868,387	870,974
Dividends per share	**$ .43**	$ .39	$ .35	$ .32	$ .29

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

The accompanying Management's Discussion and Analysis of Financial Condition and Results of Operations reflects the restatement of previously issued financial statements, as discussed in Item 8, note 2 to our consolidated financial statements. All share and per share amounts in this document have been adjusted to reflect the retroactive effect of the stock split.

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

Our key strategic priorities can be summarized as follows:

- Tax Services – continue expanding our office network, improve our client service and satisfaction scores, focus on advice that supports client growth and increased brand loyalty.
- Mortgage Services – continue growing origination volumes while lowering our cost of origination, distinguish our service quality, minimize risk and volatility in performance and optimize value from secondary markets.
- Business Services – continue expansion of our national accounting, tax and consulting business, add extended services to middle-market companies and enhance our client service culture.
- Investment Services – work to align the segment's cost structure with its revenues, attract and retain productive advisors, serve the broad consumer market through advisory relationships and integrate the Tax Services client base into this segment.

OVERVIEW >>>

A summary of our fiscal year 2005 results is as follows:

- Revenues grew 4.1% over the prior year, primarily due to our Tax Services and Business Services segments, with this growth somewhat offset by a revenue decline at our Mortgage Services segment.
- Diluted earnings per share declined 4.1% from fiscal year 2004 to $1.88, primarily due to lower profitability in our Mortgage Services segment. Current year results included a non-operating gain of $0.03 per diluted share for legal recoveries.
- Tax Services fell short of its target client levels, although increases in our pricing and the complexity of returns prepared allowed the segment's revenue growth to continue. Segment revenues increased 7.6% over the prior year and segment pretax income increased $25.0 million, or 3.9%.
- Mortgage Services' origination volumes of $31.0 billion were at record levels, but margin compression drove gains on sales of mortgage assets to decline 10.5% to $822.1 million.
- Business Services revenues and pretax income increased 14.8% and 54.7%, respectively, over the prior year. The increase was primarily due to higher demand for traditional accounting, tax and consulting services.
- Investment Services reported a pretax loss of $75.4 million compared to $75.6 million in the prior year. Operating results for the fourth quarter of fiscal year 2005 showed marked improvement, which we hope will continue into the fiscal year 2006.

Consolidated Results of Operations (in 000s, except per share amounts)

Year ended April 30,	**2005**	Restated 2004	Restated 2003
REVENUES >>>			
Tax Services	**$ 2,358,293**	$ 2,191,177	$ 1,946,763
Mortgage Services	**1,246,018**	1,323,709	1,150,080
Business Services	**573,316**	499,210	434,140
Investment Services	**239,244**	229,470	200,794
Corporate	**3,148**	4,314	(651)
	$ 4,420,019	$ 4,247,880	$ 3,731,126
PRETAX INCOME (LOSS) >>>			
Tax Services	**$ 663,518**	$ 638,493	$ 556,703
Mortgage Services	**496,093**	688,523	656,324
Business Services	**29,871**	19,312	(16,033)
Investment Services	**(75,370)**	(75,614)	(219,421)
Corporate	**(96,397)**	(107,739)	(122,009)
	1,017,715	1,162,975	855,564
Income taxes	**381,858**	447,367	377,949
Net income before change in accounting principle	**635,857**	715,608	477,615
Cumulative effect of change in accounting principle	**–**	(6,359)	–
Net income	**$ 635,857**	$ 709,249	$ 477,615
Basic earnings per share	**$ 1.92**	$ 2.00	$ 1.33
Diluted earnings per share	**1.88**	1.96	1.30

CRITICAL ACCOUNTING POLICIES >>>

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

REVENUE RECOGNITION >>> We have many different revenue sources, each governed by specific revenue recognition policies. Our revenue recognition policies can be found in Item 8, note 1 to our consolidated financial statements. Additional discussion of our recognition of gains on sales of mortgage assets follows.

GAINS ON SALES OF MORTGAGE ASSETS >>> We sell substantially all of the non-prime mortgage loans we originate to the Trusts, which are qualifying special purpose entities ("QSPEs"), with servicing rights generally retained. Prime mortgage loans are sold in whole loan sales, servicing released, to third-party buyers. Gains on sales of mortgage assets are recognized when control of the assets is surrendered (when loans are sold to Trusts) and are based on the difference between cash proceeds and the allocated cost of the assets sold.

We determine the allocated cost of assets sold based on the relative fair values of cash proceeds, MSRs and the beneficial interest in Trusts, which represents the ultimate expected outcome from the Trusts' disposition of the loans. The relative fair value of the MSRs and the beneficial interest in Trust is determined using discounted cash flow models, which require various management assumptions, limited by the ultimate expected outcome from the disposition of the loans by the Trusts (see discussion below in "Valuation of Residual Interests" and "Valuation of Mortgage Servicing Rights"). The following is an example of a hypothetical gain on sale calculation:

	(in 000s)
Acquisition cost of underlying mortgage loans	$ 1,000,000
Fair values:	
Net proceeds	$ 990,000
Beneficial interest in Trusts	20,000
MSRs	9,000
	$ 1,019,000
Computation of gain on sale:	
Net proceeds	$ 990,000
Less allocated cost ($990,000/$1,019,000 × $1,000,000)	971,541
Recorded gain on sale	$ 18,459
Recorded beneficial interest in Trusts ($20,000/$1,019,000 × $1,000,000)	$ 19,627
Recorded value of MSRs ($9,000/$1,019,000 × $1,000,000)	$ 8,832

Variations in the assumptions we use affect the estimated fair values, which would affect the reported gains on sales. Gains on sales of mortgage loans totaled $772.1 million, $915.6 million and $792.1 million for fiscal years 2005, 2004 and 2003, respectively. See discussion in "Off-Balance Sheet Financing Arrangements" related to the disposition of the loans by the Trusts and subsequent securitization by the Company.

VALUATION OF RESIDUAL INTERESTS >>> We use discounted cash flow models to determine the estimated fair values of our residual interests. We develop our assumptions for expected losses, prepayment speeds, discount rates and interest rates based on historical experience and third-party market sources. Variations in our assumptions could materially affect the estimated fair values, which may require us to record impairments or unrealized gains. In addition, variations will also affect the amount of residual interest accretion recorded on a monthly basis. Residual interests valued at $205.9 million and $211.0 million were recorded as of April 30, 2005 and 2004, respectively. We recorded $95.9 million in net write-ups in other comprehensive income and $12.2 million in impairments in the income statement related to our residual interests during fiscal year 2005 as actual performance differed from our assumptions. See Item 8, note 1 to our consolidated financial statements for our methodology used in valuing residual interests. See Item 8, note 6 to our consolidated financial statements for current assumptions and a sensitivity analysis of those assumptions. See Item 7A for sensitivity analysis related to interest rates.

VALUATION OF MORTGAGE SERVICING RIGHTS >>> MSRs are carried at the lower of cost or fair value. We use discounted cash flow models to determine the estimated fair values of our MSRs. Fair values take into account the historical prepayment activity of the related loans and our estimates of the remaining future cash flows to be generated through servicing the underlying mortgage loans. Variations in our assumptions could materially affect the estimated fair values, which may require us to record impairments.

Prepayment speeds are somewhat correlated with the movement of market interest rates. As market interest rates decline there is a corresponding increase in actual and expected borrower prepayments as customers refinance existing mortgages under more favorable interest rate terms. This in turn reduces the anticipated cash flows associated with servicing resulting in a reduction, or impairment, to the fair value of the capitalized MSR. Prepayment rates are estimated based on historical experience and third-party market sources. Many non-prime loans have a prepayment penalty in place for the first two to three years, which has the effect of making prepayment speeds more predictable, regardless of market interest rate movements. If actual prepayment rates prove to be higher than the estimate made by management, impairment of the MSRs could occur.

MSRs valued at $166.6 million and $113.8 million were recorded as of April 30, 2005 and 2004, respectively. See Item 8, note 1 to our consolidated financial statements for our methodology used in stratifying and valuing MSRs. See Item 8, note 6 to our consolidated financial statements for current assumptions and a sensitivity analysis of those assumptions.

VALUATION OF GOODWILL >>> Our goodwill impairment analysis is based on a discounted cash flow approach and market comparables, when available. This analysis, at the reporting unit level, requires significant management judgment with respect to revenue and expense growth rates, changes in working capital, and the selection and application of an appropriate discount rate.

Changes in the projections or assumptions could materially affect fair values. The use of different assumptions would increase or decrease estimated discounted future operating cash flows and could increase or decrease any impairment charge.

Our goodwill balance was $1.0 billion as of April 30, 2005 and $993.5 million as of April 30, 2004. No goodwill impairments were identified during fiscal years 2005 or 2004. In fiscal year 2003, a goodwill impairment charge of $108.8 million was recorded in the Investment Services segment due to unsettled market conditions. Also during 2003, our annual impairment test resulted in an impairment of $13.5 million for a reporting unit within the Business Services segment. No other impairments were identified.

LITIGATION >>> Our policy is to routinely assess the likelihood of any adverse judgments or outcomes related to legal matters, as well as ranges of probable losses. A determination of the amount of the reserves required, if any, for these contingencies is made after thoughtful analysis of each known issue and an analysis of historical experience in accordance with Statement of Financial Accounting Standards No. 5, "Accounting for Contingencies," and related pronouncements. Therefore, we have recorded reserves related to certain legal matters for which it is probable that a loss has been incurred and the range of such loss can be estimated. With respect to other matters, we have concluded that a loss is only reasonably possible or remote and, therefore, no liability is recorded.

STOCK-BASED COMPENSATION >>> Stock-based compensation expense is determined based on the grant-date fair value and the number of equity instruments that vest. We use the Black-Scholes model to calculate the fair value for stock options and employee stock purchase plan ("ESPP") shares using the following assumptions: stock volatility, expected life, risk-free interest rate and dividend yield. The fair value of restricted shares is the stock price on the date of the grant. We also estimate, based on historical data, the percent of equity instruments expected to vest. Variations in the assumptions used to calculate fair value could either positively or negatively affect the recorded expense. Variations between actual performance and the estimate of vesting could result in timing adjustments recorded at the end of the vesting period. Additionally, changes in accounting rules related to stock-based compensation could result in changes to our assumptions of fair value and expense recognition.

We began expensing all stock-based compensation awards under the prospective transition method beginning on May 1, 2003. Therefore, our income statements do not fully reflect the expense related to all of our stock options and restricted shares outstanding. We recorded $44.1 million, $25.7 million and $2.1 million in stock-based compensation expense during fiscal years 2005, 2004 and 2003, respectively.

INCOME TAXES >>> We calculate our current and deferred tax provision based on estimates and assumptions that could differ from the actual results reflected in income tax returns filed during the applicable calendar year. Adjustments based on filed returns are recorded when identified. We file a consolidated federal tax return on a calendar year basis, generally in the second fiscal quarter of the subsequent year.

We record a valuation allowance to reduce our deferred tax assets to the amount that is more likely than not to be realized. We have considered taxable income in carry-back periods, historical and forecasted earnings, future taxable income, the mix of earnings in the jurisdictions in which we operate, and tax planning strategies in determining the need for a valuation allowance against our deferred tax assets. In the event we were to determine that we would not be able to realize all or part of our deferred tax assets in the future, an adjustment to the deferred tax assets would be charged to earnings in the period in which we make such determination. Likewise, if we later determine that it is more likely than not that the deferred tax assets would be realized, we would reverse the applicable portion of the previously provided valuation allowance.

The amount of income taxes we pay is subject to ongoing audits by federal, state and foreign tax authorities, which may result in proposed assessments. Our estimate for the potential outcome for any uncertain tax issue is highly judgmental. We believe we have adequately provided for any reasonably foreseeable outcome related to these matters. However, our future results may include favorable or unfavorable adjustments to our estimated tax liabilities in the period the assessments are made or resolved or when statutes of limitation on potential assessments expire. As a result, our effective tax rate may fluctuate on a quarterly basis. As discussed in Item 9A, "Controls and Procedures," we reported a material weakness in our internal controls over accounting for income taxes as of April 30, 2005.

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

RESULTS OF OPERATIONS >>>

Our business is divided into four reportable segments: Tax Services, Mortgage Services, Business Services and Investment Services.

TAX SERVICES

This segment primarily consists of our income tax preparation businesses – retail, online and software. The previously reported U.S. Tax Operations has been aggregated with the International Tax Operations segment in the Tax Services segment.

Tax Services – Operating Statistics (in 000s, except average fee)

Year ended April 30,	2005	2004[1]	2003[1]
Clients served >>>			
United States:			
Company-owned offices	**10,608**	10,627	10,105
Franchise offices	**5,428**	5,460	6,488
	16,036	16,087	16,593
Digital tax solutions:			
Software [2]	**1,804**	2,027	1,963
Online [3]	**1,213**	1,207	920
	19,053	19,321	19,476
International[4]	**2,333**	2,253	2,227
	21,386	21,574	21,703
Average fee per client served [5] >>>			
Company-owned offices	**$ 158.19**	$ 146.34	$ 137.16
Franchise offices	**135.98**	127.91	118.05
	$ 150.67	$ 140.09	$ 129.69
RALs [6] >>>			
Company-owned offices	**2,667**	2,713	2,768
Franchise offices	**1,499**	1,508	1,790
Digital tax solutions:			
Software	**2**	5	–
Online	**32**	57	75
	4,200	4,283	4,633

[1] Company-owned and franchise data for fiscal years 2004 and 2003 have not been restated for franchise acquisitions.

[2] Includes TaxCut federal units sold.

[3] Includes online completed and paid federal returns, and state returns only when no payment was made for a federal return.

[4] The end of the Canadian tax season was extended from April 30 to May 2, 2005. Clients served in our international operations in fiscal year 2005 includes approximately 47,500 returns in both company-owned and franchise offices which were accepted by the client on May 1 and 2, 2005. The revenues related to these returns will be recognized in fiscal year 2006.

[5] Calculated as gross tax preparation and related fees divided by clients served (U.S. only).

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

Tax Services – Financial Results (in 000s)

Year ended April 30,	2005	Restated 2004	Restated 2003
Service revenues:			
Tax preparation and related fees	**$ 1,718,867**	$ 1,589,439	$ 1,437,835
Online tax services	**49,515**	44,915	25,892
Other service revenues	**143,648**	127,602	97,794
	1,912,030	1,761,956	1,561,521
Royalties	**197,551**	184,882	174,659
RAL participation fees	**182,784**	168,375	896
RAL waiver fees	**–**	6,548	138,242
Software sales	**44,419**	43,823	39,314
Other	**21,509**	25,593	32,131
Total revenues	**2,358,293**	2,191,177	1,946,763
Cost of services:			
Compensation and benefits	**726,654**	672,066	591,556
Occupancy	**281,772**	255,516	225,045
Depreciation and amortization	**54,579**	48,808	42,505
Supplies	**47,703**	40,792	40,992
Bad debt	**33,046**	27,328	32,653
Other	**103,560**	92,137	125,653
	1,247,314	1,136,647	1,058,404
Cost of software sales	**37,819**	41,895	34,842
Selling, general and administrative	**409,642**	374,142	296,814
Total expenses	**1,694,775**	1,552,684	1,390,060
Pretax income	**$ 663,518**	$ 638,493	$ 556,703

FISCAL 2005 COMPARED TO FISCAL 2004 >>>

Tax Services' revenues increased $167.1 million, or 7.6%, compared to the prior year. Fiscal year 2005 was the first year of a multi-year strategy to expand our retail distribution network, to increase client growth by providing more convenient access to our services and to react to increased competition in the tax preparation market. In the U.S., we opened a net 1,252 new offices, 609 of which were part of the expansion of our

company-owned retail distribution network. This expansion contributed incremental revenues of $24.9 million and pretax losses of $18.9 million. Clients served in our U.S. company-owned offices declined 0.2% from the prior year.

Tax preparation and related fees increased $129.4 million, or 8.1%. This increase is primarily due to an 8.1% increase in the average fee per U.S. client served, resulting from increases in our pricing and the complexity of returns prepared.

Online service revenues increased $4.6 million, or 10.2%, primarily as a result of a shift in the mix of services to those with higher prices. Increased competition in the online market, including national marketing campaigns and lower pricing by our competitors, coupled with a 46% increase in returns prepared through the FFA, limited our growth in online paid clients.

Other service revenues increased $16.0 million, or 12.6%, primarily as a result of additional revenues associated with RACs and Express IRAs.

Royalty revenues increased $12.7 million, or 6.9%, primarily due to a 6.3% increase in the average fee per client served at our franchise offices.

Revenues earned during the current year in connection with RAL participations increased $14.4 million, or 8.6%, over the prior year. This increase is primarily due to an increase in the dollar amount of loans in which we purchased participation interests, resulting from an increase in the fee charged by the lender, an increase in our clients' average refund size and the maximum loan amount allowed by the lender.

A total of 3.3 million software units were sold during fiscal year 2005, a decrease of 13.5% compared to the prior year. Software units include TaxCut Federal, TaxCut State, DeductionPro, WillPower and Legal Advisor. The decline in unit sales was due to increased competition, but was offset by pricing increases and a shift to our premium product lines, which resulted in a 1.4% increase in revenues from software sales.

Cost of services for fiscal year 2005 increased $110.7 million, or 9.7%, over the prior year. Compensation and benefits increased $54.6 million primarily due to increased revenues and an increase in the number of tax professionals and support staff needed in new office locations. Stock-based compensation related to our seasonal associates also increased $4.1 million. Occupancy expenses increased $26.3 million, or 10.3%, as a result of an 11.4% increase in U.S. company-owned offices under lease, which also drove increases in depreciation and amortization and supply costs. Of the total increase in occupancy expenses, $10.7 million was due to our real estate expansion. Other cost of services increased $11.4 million primarily due to additional expenses associated with our POM guarantee and Express IRAs.

Selling, general and administrative expenses increased $35.5 million over the prior year primarily due to increased spending related to an $18.8 million increase in allocations from support departments and additional legal expenses of $10.2 million.

Pretax income of $663.5 million for fiscal year 2005 represents a 3.9% increase from the prior year. The segment's operating margin declined 100 basis points to 28.1% in fiscal year 2005.

FISCAL 2006 OUTLOOK >>> In fiscal year 2006, we plan to continue our office expansion initiative by adding between 500 and 700 more offices across our company-owned and franchise network. We believe by investing in our office network, we will attract potential clients who are primarily motivated by convenience. Although we expect the additional tax offices to result in incremental clients and revenues during fiscal year 2006, due to the cost of expansion we expect incremental pretax losses from these newly added offices. We expect the performance of offices added during fiscal year 2005 to improve in the upcoming year.

We also plan to be more aggressive in our digital tax solutions marketing efforts to better compete in the market. We believe our multi-channel strategy not only allows clients to choose how they want to be served, but also allows us to appeal to a different client base than we do through our offices.

We expect overall revenue growth in this segment to be less than ten percent in the upcoming year, and we will continue to focus on cost containment to improve the segment's operating margin.

FISCAL 2004 COMPARED TO FISCAL 2003 >>> Tax Services' revenues increased $244.4 million, or 12.6%, for fiscal year 2004.

Tax preparation and related fees increased $151.6 million, or 10.5%, compared to fiscal year 2003. This increase is due to a 6.7% increase in the average fee per client served in U.S. offices, coupled with a 5.2% increase in clients served. The average fee per client served increased due to increases in our pricing and the complexity of returns prepared. Clients served in company-owned offices increased to 10.6 million as a result of the acquisition of businesses in former major franchise territories. Excluding the impact of our acquisitions of former major franchises, clients served declined 2.5%.

Online tax preparation revenues increased $19.0 million, or 73.5%, as a result of an increase in the average price and an increase in clients served.

Other service revenues for fiscal year 2004 increased $29.8 million, or 30.5%, primarily due to a change in accounting principle relating to our POM guarantee.

The average fee per client at our franchise offices increased 8.4%, while clients served declined 15.9%. The decline is due to the former major franchise territories being operated as company-owned for the majority of fiscal year 2004. This, coupled with the re-franchising of certain former major franchise

territories at higher royalty rates, resulted in a 5.9% increase in royalty revenue.

Revenues earned during fiscal year 2004 in connection with RAL participations totaled $168.4 million. These revenues are approximately $30.1 million higher than waiver fees earned during fiscal year 2003. See discussion of the waiver below. Our RAL participation revenues benefited from the new company-owned operations in former major franchise territories. We participate in RALs at a rate of nearly 50% for company-owned offices compared to 25% in major franchise offices. This increased participation rate caused our revenues to increase, although the number of RALs declined.

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

A total of 3.8 million software units were sold during fiscal year 2004, an increase of 11.2% compared to 3.4 million units in 2003. Revenues from software sales in fiscal year 2004 increased 11.5% as a result of the higher sales volume.

Cost of services for fiscal year 2004 increased $78.2 million, or 7.4%, from 2003. This increase was partially attributable to the operation of former major franchise territories as company-owned. Compensation and benefits increased $80.5 million as a result of the former major franchise acquisitions, increased field wages during the later part of the tax season and $13.7 million in expenses for stock options awarded to seasonal tax associates. Occupancy and equipment costs increased $30.5 million due primarily to a 5.7% increase in the average rent and a 3.4% increase in the number of U.S. offices under lease. Depreciation and amortization increased as a result of additional equipment purchased for new office locations opened during the period.

Selling, general and administrative expenses increased $77.3 million over 2003 due to $33.3 million in bad debt expense associated with RAL participations, which was not incurred in the prior year due to the waiver agreement. Intangible amortization increased $9.0 million from the acquisition of assets of former major franchisees. Marketing costs increased $20.7 million as a result of additional brand advertising campaigns. Allocated information technology costs increased $13.9 million as a result of additional technology projects. These increases were partially offset by a $62.4 million decrease in legal expenses, which is primarily a result of the Texas RAL litigation settlement and other cases in the prior year. See discussion in "RAL Litigation" below.

Pretax income for fiscal year 2004 increased $81.8 million, or 14.7%, over 2003. The segment's operating margin improved fifty basis points to 29.1% in fiscal year 2004. Excluding the 2003 RAL litigation reserve, pretax income increased 6.7% and our operating margin declined 160 basis points.

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

We have been named as a defendant in a number of lawsuits alleging that we engaged in wrongdoing with respect to the RAL program. We believe we have strong defenses to the various RAL Cases and will vigorously defend our position. Nevertheless, the amounts claimed by the plaintiffs are, in some instances, very substantial, and there can be no assurances as to the ultimate outcome of the pending RAL Cases, or as to the impact of the RAL Cases on our financial statements. See Item 3, "Legal Proceedings," for additional information.

MORTGAGE SERVICES

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

Mortgage Services – Operating Statistics (dollars in 000s)

Year Ended April 30,	**2005**	2004	2003
Volume of loans originated >>>			
Wholesale (non-prime)	**$ 26,977,810**	$ 20,150,992	$ 13,659,243
Retail: Non-prime	**3,005,168**	1,846,674	1,220,563
Prime	**1,018,746**	1,258,347	1,697,815
	$ 31,001,724	$ 23,256,013	$ 16,577,621
Loan Characteristics >>>			
Weighted average FICO score [1]	**614**	608	604
Weighted average interest rate for borrowers (''WAC'') [1]	**7.36%**	7.39%	8.15%
Weighted average loan-to-value [1]	**78.9%**	78.1%	78.7%
Percentage of first mortgage loans owner-occupied	**92.6%**	92.9%	93.0%
Percentage with prepayment penalty	**70.8%**	73.7%	79.9%
Percentage of fixed-rate mortgages	**22.1%**	30.4%	24.4%
Percentage of adjustable-rate mortgages	**77.9%**	69.6%	75.6%

Mortgage Services – Operating Statistics (continued) (dollars in 000s)

Year Ended April 30,	**2005**	2004	2003
Origination margin (% of origination volume) [2] >>>			
Loan sale premium	**2.77%**	4.21%	4.87%
Accretion on beneficial interest in Trusts	**0.63%**	0.72%	0.65%
Gain (loss) on derivatives	**0.15%**	(0.05%)	(0.02%)
Loan sale repurchase reserves	**(0.13%)**	(0.20%)	(0.13%)
MSR gain on sale	**0.44%**	0.36%	0.36%
	3.86%	5.04%	5.73%
Cost of acquisition	**(0.54%)**	(0.50%)	(0.36%)
Direct origination expenses	**(0.68%)**	(0.65%)	(0.62%)
Net gain on sale – gross margin [3]	**2.64%**	3.89%	4.75%
Other revenues	**0.03%**	0.01%	(0.01%)
Other cost of origination	**(1.55%)**	(1.68%)	(1.91%)
Net margin	**1.12%**	2.22%	2.83%
Total cost of origination	**2.23%**	2.33%	2.53%
Total cost of origination and acquisition	**2.77%**	2.83%	2.89%
Loan delivery >>>			
Loan sales	**$ 30,975,523**	$ 23,234,935	$ 17,225,774
Execution price: [4] >>>			
Loans originated and sold	**3.01%**	4.09%	4.63%
Loans acquired and sold	**–**	–	.18%
	3.01%	4.09%	4.46%

[1] Represents non-prime production.
[2] As restated. See ''Reconciliation of Non-GAAP Financial Information'' at the end of Item 7.
[3] Defined as gain on sale of mortgage loans (including gain or loss on derivatives, mortgage servicing rights and net of direct origination and acquisition expenses) divided by origination volume.
[4] Defined as total premium received divided by total balance of loans delivered to third-party investors or securitization vehicles (excluding mortgage servicing rights and the effect of loan origination expenses).

Mortgage Services – Financial Results			(in 000s)
Year Ended April 30,	**2005**	Restated 2004	Restated 2003
Components of gains on sales:			
Gain on mortgage loans	**$ 772,061**	$ 915,628	$ 792,072
Gain (loss) on derivatives	**46,853**	(11,957)	(4,141)
Gain on sales of residual interests	**15,396**	40,689	93,307
Impairment of residual interests	**(12,235)**	(26,063)	(54,111)
	822,075	918,297	827,127
Interest income:			
Accretion-residual interests	**137,610**	186,466	146,343
Other	**11,850**	5,064	5,421
	149,460	191,530	151,764
Loan-servicing revenue	**273,056**	211,710	168,351
Other	**1,427**	2,172	2,838
Total revenues	**1,246,018**	1,323,709	1,150,080
Cost of services	**221,300**	193,018	141,419
Cost of non-service revenues:			
Compensation and benefits	**218,544**	190,499	146,907
Occupancy	**33,155**	25,635	22,701
Other	**72,803**	71,634	74,332
	324,502	287,768	243,940
Selling, general and administrative	**204,123**	154,400	108,397
Total expenses	**749,925**	635,186	493,756
Pretax income	**$ 496,093**	$ 688,523	$ 656,324

FISCAL 2005 COMPARED TO FISCAL 2004 >>> Mortgage Services' revenues decreased $77.7 million, or 5.9%, compared to the prior year. Revenues decreased primarily as a result of a decline in gains on sales of mortgage loans.

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

		(dollars in 000s)
Year Ended April 30,	**2005**	2004
Application process:		
Total number of applications	**335,203**	269,267
Number of sales associates [1]	**3,526**	2,812
Closing ratio [2]	**58.3%**	57.7%
Originations:		
Total number of originations	**195,392**	155,339
WAC	**7.36%**	7.39%
Average loan size (all loans)	**$ 159**	$ 150
Total originations	**$ 31,001,724**	$ 23,256,013
Non-prime origination ratio	**96.7%**	94.6%
Direct origination and acquisition expenses, net	**$ 378,674**	$ 278,785
Revenue (loan value):		
Net gain on sale – gross margin	**2.64%**	3.89%

[1] Includes all direct sales and back office sales support associates.
[2] Percentage of loans funded divided by total applications in the period.

Although origination volumes increased 33.3% over the prior year, gains on sales of mortgage loans declined $143.6 million as a result of increased price competition and poorer execution in the secondary market. As a result, our net margin declined to 1.12% from 2.22% in the prior year.

The average market interest rate for a 2-year swap increased to 3.32% in fiscal year 2005 from 1.97% in 2004, while our WAC decreased to 7.36% from 7.39% for the same periods. Because our WAC did not increase as quickly as market rates, our gross margin declined 125 basis points from last year. To mitigate the risk of short-term changes in market interest rates, we use interest rate swaps, interest rate caps and forward loan sale commitments. During the current year, we recorded $46.9 million in net gains, compared to a net loss of $12.0 million in the prior year, related to derivative instruments. See Item 8, note 9 to the consolidated financial statements.

For the year ended April 30, 2004, we reclassified $167.7 million from interest income to gains on sales of mortgage assets representing excess cash received from our beneficial interest in Trusts. The beneficial interest in Trusts is reported at fair value at each balance sheet date. Changes in its fair value are included in current period earnings. The excess cash received together with the and mark-to-market adjustment for each period have been classified as gain on sale of mortgage loans. This change had no impact on our net income as previously reported.

In fiscal year 2005, we completed a sale of residual interests and recorded a gain of $15.4 million. This sale accelerated cash flows from these residual interests, effectively realizing previously recorded unrealized gains included in other

comprehensive income. We recorded a gain of $40.7 million in the prior year on similar transactions.

Impairments of residual interests in securitizations of $12.2 million were recognized during the year compared with $26.1 million in the prior year. The prior year impairments were due primarily to loan performance of older residuals and changes in assumptions to more closely align with the economic and interest rate environment.

Total accretion of residual interests decreased $48.9 million from the prior year. This decrease is primarily due to the sale of previously securitized residual interests during fiscal year 2004, which eliminated future accretion on those residual interests.

During fiscal year 2005, our residual interests continued to perform better than expected compared to internal valuation models. As a result of this performance, our residuals have produced, or are expected to produce, more cash proceeds than projected in previous valuation models. We recorded favorable pretax mark-to-market adjustments, which increased the fair value of our residual interests $154.3 million during the year. These adjustments were recorded, net of write-downs of $58.3 million and deferred taxes of $36.6 million, in other comprehensive income and will be accreted into income throughout the remaining life of the residual interests. Future changes in interest rates, actual loan pool performance or other assumptions could cause additional favorable or unfavorable adjustments to the fair value of the residual interests and could cause changes to the accretion of these residual interests in future periods. Additionally, sales of residual interests results in decreases to accretion income in future periods.

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

(dollars in 000s)

Year Ended April 30,	2005	2004
Average servicing portfolio:		
With related MSRs	**$ 41,021,448**	$ 32,039,811
Without related MSRs	**13,838,769**	6,481,069
	$ 54,860,217	$ 38,520,880
Number of loans serviced	**435,290**	324,364
Average delinquency rate	**4.85%**	6.04%
Weighted average FICO score	**610**	596
Value of MSRs	**$ 166,614**	$ 113,821

Loan-servicing revenues increased $61.3 million, or 29.0%, over the prior year. The increase reflects a higher average loan-servicing portfolio. The average servicing portfolio for fiscal year 2005 increased 42.4%.

Cost of services increased $28.3 million, or 14.7%, as a result of a higher average servicing portfolio, particularly loans with MSRs, which also resulted in an increase in MSR amortization.

Cost of non-service revenues increased $36.7 million, or 12.8%, over the prior year. Compensation and benefits increased $28.0 million as a result of a 25.4% increase in the number of employees, reflecting resources needed to support higher loan production volumes.

Selling, general and administrative expenses increased $49.7 million, or 32.2%, due to $12.1 million in increased retail marketing expenses and $7.4 million in additional consulting expenses.

Pretax income decreased $192.4 million, or 27.9%, for fiscal year 2005.

FISCAL 2006 OUTLOOK >>>

We believe we can continue to grow our origination volumes in fiscal year 2006. Lowering our cost of origination will be a key priority for the upcoming year and we have begun to implement new technologies to enhance the underwriting and origination processes.

Based upon these assumptions, we expect loan origination growth to exceed 20% at net margins in the range of .90% to 1.15% in fiscal year 2006.

FISCAL 2004 COMPARED TO FISCAL 2003 >>>

Mortgage Services' revenues increased $173.6 million, or 15.1%, compared to fiscal year 2003. This increase was primarily a result of increased production volumes, higher servicing income and accretion.

Gains on sales of mortgage loans increased $123.6 million, or 15.6%, for the year ended April 30, 2004. The increase over the prior year is a result of a significant increase in loan origination volume, an increase in the average loan size and the closing ratio, partially offset by a decrease in our gross margin and increased loan sale repurchase reserves. During 2004, we originated $23.3 billion in mortgage loans compared to $16.6 billion in 2003, an increase of 40.3%. Our gross margin decreased primarily due to lower WACs. The loan sale repurchase reserves, which are netted against gains on sales, increased $25.5 million over 2003. This increase is primarily a result of an increase in loan sales coupled with the increase in whole loan sales compared to securitizations, for which higher reserves are provided at the time of sale for estimated repurchases. As previously discussed, we reclassified $103.3 million from interest income to gains on sales for fiscal year 2003.

In November 2002, we completed the sale of previously securitized residual interests and recorded a gain of $93.3 million.

Two smaller transactions were completed in fiscal year 2004, which resulted in gains of $40.7 million.

Impairments of residual interests in securitizations of $26.1 million were recognized during 2004 compared with $54.1 million in 2003. The impairments were due primarily to loan performance of older residuals and changes in assumptions to more closely align with the current economic and interest rate environment.

Total accretion of residual interests increased $40.1 million over 2003. This improvement is the result of write-ups in the related asset values in fiscal years 2003 and 2004. Increases in fair value are realized in income through accretion over the remaining expected life of the residual interest.

We recorded favorable pretax mark-to-market adjustments, which increased the fair value of our residual interests $199.7 million during 2004. These adjustments were recorded, net of write-downs of $32.6 million and deferred taxes of $63.8 million, in other comprehensive income.

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

Cost of services increased $51.6 million, or 36.5%, as a result of a higher average servicing portfolio and the acceleration of amortization of certain MSRs.

Cost of non-service revenues increased $43.8 million, or 18.0%, over the prior year. Compensation and benefits increased $43.6 million as a result of a 22.9% increase in the number of employees, reflecting resources needed to support higher loan production volumes. Occupancy expenses increased due to nine additional branch offices opened since October 2002.

Selling, general and administrative expenses increased $46.0 million, primarily due to $10.4 million in increased marketing expenses for retail mortgage direct mail advertising, $13.5 million in increased allocated corporate and shared costs and $7.2 million in increased consulting expenses. Allocated costs increased due to higher insurance costs and the expensing of stock-based compensation.

Pretax income increased $32.2 million, or 4.9%, for fiscal year 2004.

BUSINESS SERVICES

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

Business Services – Operating Statistics

Year ended April 30,	**2005**	2004	2003
Accounting, tax and consulting >>>			
Chargeable hours (000s)	**2,898**	2,598	2,584
Chargeable hours per person	**1,430**	1,414	1,388
Net collected rate per hour	**$ 133**	$ 124	$ 120
Average margin per person	**$ 112,573**	$ 102,496	$ 97,117

Business Services – Financial Results (in 000s)

Year ended April 30,	**2005**	Restated 2004	Restated 2003
Service revenues:			
Accounting, tax and consulting	**$ 412,473**	$ 353,750	$ 337,903
Capital markets	**67,922**	73,860	35,629
Payroll, benefits and retirement services	**27,331**	21,172	20,745
Other services	**31,170**	19,390	7,912
	538,896	468,172	402,189
Other	**34,420**	31,038	31,951
Total revenues	**573,316**	499,210	434,140
Cost of services:			
Compensation and benefits	**310,950**	256,640	233,303
Occupancy	**24,699**	20,498	20,873
Other	**36,672**	33,080	32,562
	372,321	310,218	286,738
Impairment of goodwill	**–**	–	13,459
Selling, general and administrative	**171,124**	169,680	149,976
Total expenses	**543,445**	479,898	450,173
Pretax income (loss)	**$ 29,871**	$ 19,312	$ (16,033)

FISCAL 2005 COMPARED TO FISCAL 2004 >>>

Business Services' revenues for fiscal year 2005 increased $74.1 million, or 14.8%, from the prior year. This increase was primarily due to a $58.7 million increase in accounting, tax and consulting revenues resulting from an 11.5% increase in chargeable hours and a 7.3% increase in the net collected rate per hour. The increase in chargeable hours is primarily due to strong demand for our tax and accounting services as well as our consulting and risk management services. This demand stems from the current business environment and the emphasis placed on the accounting industry.

Capital markets revenues declined $5.9 million as a result of an 11.2% decrease in the number of business valuation projects. Payroll, benefits and retirement services revenues increased as a result of three acquisitions completed during the last half of the current year.

Other service revenues increased $11.8 million due to the acquisition of our financial process outsourcing business in the second quarter of last year, coupled with overall growth in this business. Increases in reimbursable expenses and contractor revenues also contributed to higher revenues.

Cost of services increased $62.1 million, or 20.0%, for fiscal year 2005 compared to the prior year. Compensation and benefits related to our services increased $54.3 million, primarily as a result of increases in the number of personnel and the average wage per employee. The increase in the average wage is being driven by marketplace competition for professional staff. Higher expenses are also attributable to investments we are making in early-stage businesses within this segment.

Pretax income for the year ended April 30, 2005 was $29.9 million compared to $19.3 million in fiscal year 2004.

FISCAL 2006 OUTLOOK >>>

Our focus for fiscal year 2006 is growing the business within our current markets by expanding our services to existing clients. We will continue to support our national business development strategy and we expect the demand for risk management services and financial process outsourcing to continue. We also believe the demand and competition for qualified professional staff will continue.

We expect this segment's pretax income for fiscal year 2006 to increase by approximately 30%.

FISCAL 2004 COMPARED TO FISCAL 2003 >>>

Business Services' revenues for fiscal year 2004 improved $65.1 million, or 15.0%, over the prior year. This increase was primarily due to a $38.2 million increase in capital markets revenue resulting from a 38.3% increase in the number of business valuation projects. Revenues in accounting, tax and consulting increased $15.8 million over the prior year as a result of newly acquired tax businesses and increased productivity. The acquisition of Tax Services' former major franchises allowed us to acquire certain tax businesses associated with the original M&P acquisition. We were previously unable to acquire and operate these businesses in direct competition with major franchise territories. The acquired tax businesses contributed $13.0 million in revenues in 2004. The remainder of the increase

was driven primarily by a 3.3% increase in the net collected rate per hour.

Cost of services increased $23.5 million, or 8.2%, over the prior year. Compensation and benefits increased $23.3 million, primarily as a result of increased activity in the capital markets business and increased costs in our accounting, tax and consulting business. A goodwill impairment charge of $13.5 million was recorded in the prior year. No such impairment was recorded in fiscal year 2004.

Pretax income for the year ended April 30, 2004 was $19.3 million compared to a loss of $16.0 million in fiscal year 2003.

INVESTMENT SERVICES

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

Investment Services – Operating Statistics

Year ended April 30,	2005	2004	2003
Customer trades [1]	**885,796**	1,004,235	860,784
Customer daily average trades	**3,529**	3,923	3,429
Average revenue per trade [2]	**$ 123.33**	$ 119.36	$ 120.15
Customer accounts: [3]			
Traditional brokerage	**431,749**	463,736	501,001
Express IRAs	**380,539**	366,040	216,351
	812,288	829,776	717,352
Ending balance of assets under administration (billions)	**$ 27.8**	$ 26.7	$ 22.3
Average assets per traditional brokerage account	**$ 63,755**	$ 57,204	$ 43,991
Average margin balances (millions)	**$ 597**	$ 545	$ 577
Average customer payables balances (millions)	**$ 975**	$ 984	$ 819
Number of advisors	**1,010**	1,009	984
Included in the numbers above are the following relating to fee-based accounts:			
Customer accounts	**7,668**	6,964	4,680
Average revenue per account	**$ 2,301**	$ 1,572	$ 1,442
Assets under administration (millions)	**$ 1,975**	$ 1,494	$ 789
Average assets per active account	**$ 260,238**	$ 214,537	$ 168,522

[1] Includes only trades on which revenues are earned (''revenue trades''). Revenues are earned on both transactional and annuitized trades.
[2] Calculated as total trade revenues divided by revenue trades.
[3] Includes only accounts with a positive balance.

Investment Services – Financial Results (in 000s)

Year ended April 30,	2005	Restated 2004	Restated 2003
Service revenues:			
Transactional revenue	**$ 88,516**	$ 99,559	$ 91,587
Annuitized revenue	**77,386**	60,950	38,507
Production revenue	**165,902**	160,509	130,094
Other service revenue	**29,206**	35,619	34,311
	195,108	196,128	164,405
Margin interest revenue	**43,698**	33,408	37,300
Less: interest expense	**(3,114)**	(1,358)	(4,830)
Net interest revenue	**40,584**	32,050	32,470
Other	**438**	(66)	(911)
Total revenues [1]	**236,130**	228,112	195,964
Cost of services:			
Compensation and benefits	**116,552**	108,956	89,473
Occupancy	**22,178**	21,571	24,299
Other	**19,555**	24,091	25,604
	158,285	154,618	139,376
Impairment of goodwill	**–**	–	108,792
Selling, general and administrative	**153,215**	149,108	167,217
Total expenses	**311,500**	303,726	415,385
Pretax loss	**$ (75,370)**	$ (75,614)	$ (219,421)

[1] Total revenues, less interest expense

FISCAL 2005 COMPARED TO FISCAL 2004 >>>

Investment Services' revenues, net of interest expense, for fiscal year 2005 increased $8.0 million, or 3.5%. The increase is primarily due to higher margin interest revenue.

Production revenue increased $5.4 million, or 3.4% over the prior year. Transactional revenue, which is based on individual securities transactions, decreased $11.0 million, or 11.1%, from the prior year due primarily to an 18.7% decline in transactional trading volume. This decline was partially offset by an increase in the average revenue per trade. Annuitized revenue, which consists of sales of mutual funds, insurance, fee-based products and unit investment trusts, increased $16.4 million, or 27.0%, due to increased sales of annuities, mutual funds and our fee-based wealth management accounts. Annuitized revenues represent

46.6% of total production revenues for fiscal year 2005, compared to 38.0% in the prior year. Advisor productivity averaged approximately $166,000 in the current year, essentially flat compared to the prior year.

Other service revenue declined $6.4 million, or 18.0%, from the prior year due to fewer fixed income underwriting offerings and Express IRA revenues now being recorded as part of Tax Services.

Margin interest revenue increased $10.3 million, or 30.8%, from the prior year, which is primarily a result of higher interest rates earned, coupled with a 9.5% increase in average margin balances. Margin balances have increased from an average of $545.0 million in fiscal year 2004 to $597.0 million in the current year.

Cost of services increased $3.7 million, or 2.4%, primarily due to $7.6 million of additional compensation and benefits resulting from a higher average commission rate than the prior year and other financial incentives for attracting new advisors. This increase was partially offset by declines in depreciation and other expenses.

Selling, general and administrative expenses increased $4.1 million, or 2.8%, over the prior year primarily as the result of $6.8 million in additional legal expenses, partially offset by gains of $4.6 million on the disposition of certain assets.

The pretax loss for Investment Services for fiscal year 2005 was $75.4 million compared to a loss of $75.6 million last year.

FISCAL 2006 OUTLOOK >>>

We believe the key to this segment's profitability in the near-term is aligning the segment's cost structure with its revenue. Our focus in the upcoming fiscal year will be on reducing costs and attracting productive advisors. In the fourth quarter of fiscal year 2005, we implemented a series of actions, which are not production dependent, to reduce costs and enhance performance. We have also implemented strict advisor production standards.

Although we still expect to report an operating loss for fiscal year 2006, we anticipate that loss will be approximately $25 to $35 million less than the loss recorded in 2005.

FISCAL 2004 COMPARED TO FISCAL 2003 >>>

Investment Services' revenues, net of interest expense, for fiscal year 2004 increased $32.1 million, or 16.4%, over fiscal year 2003. The improvement is primarily due to the increase in annuitized revenues.

Production revenue increased $30.4 million, or 23.4% over fiscal year 2003. Transactional revenue increased $8.0 million, or 8.7%, from 2003 due to an increase in transactional trading activity, partially offset by a slight decline in average revenue per trade. Annuitized revenues increased $22.4 million, or 58.3%, due to increased sales of annuities and mutual funds and an increase in advisor productivity. Productivity averaged approximately $166,000 per advisor in fiscal year 2004 compared to $122,000 in 2003.

Margin interest revenue declined $3.9 million, or 10.4%, from 2003 primarily as a result of a 5.5% decline in average margin balances coupled with lower interest rates. Margin balances declined from an average of $577.0 million in fiscal year 2003 to $545.0 million in 2004. Accordingly, interest expense for fiscal year 2004 declined $3.5 million, or 71.9%, from fiscal year 2003.

Cost of services increased $15.2 million over 2003 primarily due to a $19.5 million increase in compensation and benefits, resulting from an increase in customer trading and higher average commissions.

A goodwill impairment charge of $108.8 million was recorded in fiscal year 2003 due to unsettled market conditions. This charge includes an additional impairment of $84.8 million as a result of the restatement of previously issued financial statements.

Selling, general and administrative expenses decreased $18.1 million primarily as a result of a reduction in consulting and legal expenses.

The pretax loss for Investment Services for fiscal year 2004 was $75.6 million compared to a loss of $219.4 million in 2003.

CORPORATE

This segment consists primarily of corporate support departments, which provide services to our operating segments. These support departments consist of marketing, information technology, facilities, human resources, executive, legal, finance, government relations and corporate communications. Support department costs are generally allocated to our operating segments. Our captive insurance and franchise financing subsidiaries are also included within this segment, as was our small business initiatives subsidiary in fiscal years 2004 and 2003.

Corporate – Financial Results (in 000s)

Year Ended April 30,	2005	Restated 2004	Restated 2003
Operating revenues	**$ 13,592**	$ 12,532	$ 6,448
Eliminations	**(10,444)**	(8,218)	(7,099)
Total revenues	**3,148**	4,314	(651)
Corporate expenses:			
Interest expense	**72,701**	69,300	74,482
Other	**51,262**	50,476	56,008
	123,963	119,776	130,490
Support departments:			
Marketing	**117,303**	110,507	88,819
Information technology	**107,306**	110,569	92,899
Finance	**34,498**	33,829	30,232
Other	**107,562**	78,593	65,734
	366,669	333,498	277,684
Allocation of support departments	**(366,742)**	(336,639)	(280,677)
Other income, net	**24,345**	4,582	6,139
Pretax loss	**$ (96,397)**	$ (107,739)	$ (122,009)

FISCAL 2005 COMPARED TO FISCAL 2004 >>> Corporate expenses increased $4.2 million primarily due to higher interest expense, resulting from higher interest rates and higher average debt balances.

Marketing department expenses increased $6.8 million, or 6.1%, primarily due to additional marketing efforts in the current year.

Other support department expenses increased $29.0 million, primarily due to $15.1 million of additional stock-based compensation expenses, increases in the cost of employee insurance and supplies.

Other income increased $19.8 million primarily as a result of $17.3 million in legal recoveries.

The pretax loss was $96.4 million, compared with last year's loss of $107.7 million.

Our effective income tax rate for fiscal year 2005 decreased to 37.5% compared to 38.5% in fiscal year 2004. The decrease is due to tax benefits realized on net operating loss carryforwards and their related benefits.

FISCAL 2004 COMPARED TO FISCAL 2003 >>> Corporate revenues increased $5.0 million primarily as a result of operating capital gains of $1.0 million in 2004 compared to a $2.0 million write-off of investments at our captive insurance subsidiary and improved results from our small business subsidiary.

Corporate expenses declined $10.7 million, or 8.2%, due primarily to lower interest expense. Interest expense declined as a result of lower financing costs and a scheduled debt payment of $45.1 million in August 2003.

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

The pretax loss was $107.7 million, compared with a loss of $122.0 million in fiscal year 2003.

Our effective income tax rate for fiscal year 2004 decreased to 38.5% compared to 44.2% in fiscal year 2003, primarily as a result of non-deductible goodwill impairment charges recorded in the prior year.

FINANCIAL CONDITION >>>

CAPITAL RESOURCES & LIQUIDITY BY SEGMENT

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

CASH FROM OPERATIONS >>> Operating cash flows totaled $513.8 million, $852.5 million and $689.7 million in fiscal years 2005, 2004 and 2003, respectively. Operating cash flows in fiscal year 2005 decreased from fiscal year 2004 due to decreased cash flows from both Mortgage Services and Tax Services and increased income tax payments. Tax Services and Mortgage Services contributed $529.0 million and $98.3 million, respectively, to cash from operations in the current year. Income

tax payments totaled $437.4 million this year, compared to $331.6 million in fiscal year 2004.

ISSUANCES OF COMMON STOCK >>> We issue shares of our common stock in accordance with our stock-based compensation plans out of our treasury shares. Proceeds from the issuance of common stock totaled $136.1 million, $120.0 million and $126.3 million in fiscal years 2005, 2004 and 2003, respectively.

DEBT >>> In August 2004 we filed an additional shelf registration statement with the SEC for up to $1.0 billion in debt securities. On October 26, 2004, we issued $400.0 million of 5.125% Senior Notes under our shelf registration statements. The proceeds from the notes were used to repay our $250.0 million in 6¾% Senior Notes, which were due on November 1, 2004. The remaining proceeds were used for working capital, capital expenditures, repayment of other debt and other general corporate purposes.

DIVIDENDS >>> We have consistently paid quarterly dividends. Dividends paid totaled $143.0 million, $138.4 million and $125.9 million in fiscal years 2005, 2004 and 2003, respectively.

SHARE REPURCHASES >>> On June 9, 2004, our Board of Directors approved an authorization to repurchase an additional 15 million shares. This authorization is in addition to the authorization of 20 million shares on June 11, 2003. During fiscal year 2005, we repurchased 11.2 million shares (pre-split) pursuant to these authorizations at an aggregate price of $527.5 million or an average price of $46.98 per share. There were 15.0 million shares remaining under the 2004 authorization and 0.1 million shares remaining under the 2003 authorization at the end of fiscal year 2005.

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

ACQUISITIONS >>> From time to time we acquire businesses that are viewed to be a good strategic fit to our organization. Total cash paid for acquisitions was $37.6 million, $280.9 million and $26.4 million during fiscal years 2005, 2004 and 2003, respectively. Significant acquisitions during fiscal year 2004 were the former major franchise territories we now operate as company-owned. Cash paid in fiscal year 2004 related to the acquisition of these territories totaled $243.2 million.

RESTRICTED CASH >>> We hold certain cash balances that are restricted as to use. Cash and cash equivalents – restricted totaled $516.9 million at fiscal year end. Investment Services held $465.0 million of this total segregated in a special reserve account for the exclusive benefit of customers pursuant to Rule 15c3-3 of the Securities Exchange Act of 1934. Restricted cash of $28.1 million at April 30, 2005 held by Business Services is related to funds held to pay payroll taxes on behalf of its customers. Restricted cash held by Mortgage Services totaled $23.8 million at April 30, 2005 for outstanding commitments to fund mortgage loans.

FISCAL YEAR 2006 OUTLOOK >>> We began construction on a new world headquarters facility during fiscal year 2005. Estimated construction costs during fiscal year 2006 of $103.5 million will be financed from operating cash flows.

Our Board of Directors approved an increase of the quarterly cash dividend from 11 cents to 12.5 cents per share, a 13.6% increase, effective with the quarterly dividend payment on October 3, 2005 to shareholders of record on September 12, 2005.

A condensed consolidating statement of cash flows by segment for the fiscal year ended April 30, 2005 follows. Generally, interest is not charged on intercompany activities between segments. Detailed consolidated statements of cash flows are located in Item 8.

(in 000s)

Fiscal Year 2005	Tax Services	Mortgage Services	Business Services	Investment Services	Corporate	Consolidated H&R Block
Cash provided by (used in):						
Operations	**$ 528,990**	**$ 98,303**	**$ 44,657**	**$ (32,408)**	**$ (125,749)**	**$ 513,793**
Investing	**(83,534)**	**99,906**	**(37,816)**	**7,618**	**(44,584)**	**(58,410)**
Financing	**3,482**	**(15,126)**	**(23,223)**	**(1,686)**	**(391,362)**	**(427,915)**
Net intercompany	**(448,912)**	**(184,156)**	**13,725**	**19,965**	**599,378**	**–**

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

TAX SERVICES >>> Tax Services has historically been our largest provider of annual operating cash flows. The seasonal

nature of Tax Services generally results in a large positive operating cash flow in the fourth quarter. Tax Services generated $529.0 million in operating cash flows primarily related to net income, as cash is generally collected from clients at the time services are rendered. Prior year cash requirements for investing activities included $243.2 million paid to acquire former major franchisees.

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

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

Loss of the RAL program could adversely affect our operating results. In addition to the loss of revenues and income directly attributable to the RAL program, the inability to offer RALs could indirectly result in the loss of retail tax clients and associated tax preparation revenues, unless we were able to take mitigating actions. Total revenues related to the RAL program (including revenues from participation interests) were $182.6 million for the year ended April 30, 2005, representing 4.1% of consolidated revenues and contributed $101.3 million to the segment's pretax results. Revenues related to the RAL program totaled $174.2 million for the year ended April 30, 2004, representing 4.1% of consolidated revenues.

Our international operations are generally self-funded. Cash balances are held in Canada, Australia and the United Kingdom independently in local currencies. H&R Block Canada, Inc. ("Block Canada") has a commercial paper program for up to $125.0 million (Canadian). At April 30, 2005, there was no commercial paper outstanding. The peak borrowing during fiscal year 2005 was $124.0 million (Canadian).

MORTGAGE SERVICES >>> This segment primarily generates cash as a result of the sale and securitization of mortgage loans and residual interests and as its residual interests mature. Mortgage Services provided $98.3 million in cash from operating activities primarily due to the sale of mortgage loans. This segment also generated $99.9 million in cash from investing activities primarily related to cash received from the maturity and sales of residual interests. We regularly sell loans as a source of liquidity. Loan sales in fiscal year 2005 were $31.0 billion compared with $23.2 billion in fiscal year 2004. Additionally, Block Financial Corporation ("BFC") provides a line of credit of at least $150 million for working capital needs. At the end of fiscal year 2005 there was no outstanding balance on this facility.

GAINS ON SALES >>> Gains on sales of mortgage assets totaled $822.1 million, which was primarily recorded as operating activities. The percentage of cash proceeds we receive from our capital market transactions is calculated as follows:

(in 000s)

Year Ended April 30,	2005	Restated 2004	Restated 2003
Cash proceeds:			
Whole loans sold by the Trusts	**$ 737,417**	$ 741,233	$ 368,305
Residual cash flows from Beneficial interest in Trusts	**193,639**	167,705	103,294
Loans securitized	**69,665**	198,226	389,449
Sale of previously securitized residuals	**15,396**	40,689	93,307
Gain (loss) on derivative instruments	**45,298**	(2,578)	(2,056)
	1,061,415	1,145,275	952,299
Non-cash:			
Retained mortgage servicing rights	**137,510**	84,274	60,078
Additions (reductions) to balance sheet [(1)]	**15,885**	11,490	(10,829)
	153,395	95,764	49,249
Portion of gain on sale from capital market transactions	**$ 1,214,810**	$ 1,241,039	$ 1,001,548
Other items included in gain on sale:			
Changes in beneficial interest in Trusts	**36,281**	37,918	74,987
Impairments to fair value of residual interests	**(12,235)**	(26,063)	(54,111)
Net change in fair value of derivative instruments	**1,555**	(9,379)	(2,085)
Direct origination and acquisition expenses, net	**(378,674)**	(278,785)	(182,216)
Loan sale repurchase reserves	**(39,662)**	(46,820)	(21,295)
Other	**–**	387	10,299
	(392,735)	(322,742)	(174,421)
Reported gains on sales of mortgage assets	**$ 822,075**	$ 918,297	$ 827,127
% of gain on sale from capital market transactions received as cash [(2)]	**87%**	92%	95%

(1) Includes residual interests and interest rate caps.

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

WAREHOUSE FUNDING >>> To finance our prime originations, we use a warehouse facility with capacity up to $25 million. This annual facility bears interest at one-month LIBOR plus 140 to 200 basis points. As of April 30, 2005 and 2004, the balance outstanding under this facility was $4.4 million and $4.0 million, respectively, and is included in accounts payable, accrued expenses and other on the consolidated balance sheets.

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

We believe the sources of liquidity available to the Mortgage Services segment are sufficient for its needs. Risks to the stability of these sources include, but are not limited to, adverse changes in the perception of the non-prime industry, adverse changes in the regulation of non-prime lending, changes in the rating criteria of non-prime lending by third-party rating agencies and, to a lesser degree, reduction in the availability of third parties that provide credit enhancement. Past performance of the securitizations will also impact the segment's future participation in these markets. The off-balance sheet warehouse facilities used by the Trusts are subject to annual renewal, each at a different time during the year, and any of the above events could lead to difficulty in renewing the lines. These risks are mitigated by a staggering of the renewal dates related to these warehouse lines and through the use of multiple lending institutions to secure these lines.

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

This segment generated $44.7 million in operating cash flows primarily related to net income. Additionally, Business Services used $37.8 million in investing activities primarily related to contingent payments on prior acquisitions, and $23.2 million in financing activities as a result of payments on acquisition debt.

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

HRBFA is required to maintain minimum net capital as defined under Rule 15c3-1 of the Securities Exchange Act of 1934 and complies with the alternative capital requirement, which requires a broker-dealer to maintain net capital equal to the greater of $250,000 or 2% of the combined aggregate debit balances arising from customer transactions. The net capital rule also provides that equity capital may not be withdrawn or cash dividends paid if resulting net capital would be less than the greater of 5% of combined aggregate debit items or 120% of the minimum required net capital. At the end of fiscal year 2005, HRBFA's net capital of $121.2 million, which was 19.2% of aggregate debit items, exceeded its minimum required net capital of $12.6 million by $108.6 million. During fiscal year 2005 and 2004, we contributed additional capital of $27.0 million and $32.0 million, respectively, even though HRBFA was in excess of the minimum net capital requirement, and we may continue to do so in the future.

In fiscal year 2005, Investment Services used $32.4 million in its operating activities primarily due to operating losses.

To manage short-term liquidity, BFC provides HRBFA a $300 million unsecured credit facility. At the end of fiscal year 2005 there was no outstanding balance on this facility.

HRBFA has letters of credit with a financial institution with a credit limit of $125.0 million. There were no commitments outstanding on these letters of credit at any time during fiscal year 2005 or 2004.

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

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

To satisfy the margin deposit requirement of client option transactions with the Options Clearing Corporation ("OCC"), Investment Services pledges customers' margined securities. Pledged securities at the end of fiscal year 2005 totaled $44.6 million, an excess of $7.9 million over the margin requirement. Pledged securities at the end of fiscal year 2004 totaled $46.3 million, an excess of $7.9 million over the margin requirement.

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

OFF-BALANCE SHEET FINANCING ARRANGEMENTS

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

We have commitments to fund mortgage loans in our pipeline of $3.9 billion at April 30, 2005, which are subject to conditions and loan contract verification. There is no commitment on the part of the borrower to close on the mortgage loan at this stage of the lending process and external market forces impact the probability of these loan commitments being closed. Therefore, total commitments outstanding do not necessarily represent future cash requirements. If the loan commitments are exercised, they will be funded as described below.

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

Substantially all non-prime mortgage loans we originate are sold daily to the Trusts. The Trusts purchase the loans from us using five warehouse facilities, arranged by us, totaling $9.0 billion. These facilities are subject to various Option One performance triggers, limits and financial covenants, including tangible net worth and leverage ratios. In addition, these facilities contain cross-default features in which a default in one facility would trigger a default under the other facilities as well. These various facilities bear interest at one-month LIBOR plus 50 to 400 basis points and expire on various dates during the year. In addition, some of the facilities provide for the payment of minimum usage fees.

Subsequent to April 30, 2005, we increased the Trusts' warehouse capacity by adding an additional $1.0 billion facility. This facility bears interest at one-month LIBOR plus 45 to 345 basis points.

When we sell loans to the Trusts, we remove the mortgage loans from our balance sheet and record the gain on the sale, cash and a beneficial interest in Trusts, which represents the ultimate expected outcome from the disposition of the loans. Our beneficial interest in Trusts totaled $215.4 million and $153.8 million at April 30, 2005 and 2004, respectively.

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

For fiscal year 2005, the final disposition of loans sold to the Trusts was 92% whole loan sales and 8% securitizations. For fiscal year 2004, the final disposition was 76% whole loan sales and 24% securitizations. The current year shift to whole loan sales is due to the more favorable pricing in the whole loan market. Increased whole loan sale transactions result in cash being received earlier. Additionally, whole loan sales do not add residual interests to our balance sheet, and therefore, we do not retain balance sheet risk.

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

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

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

At the settlement of each NIM transaction, we remove the residual interests sold from our consolidated balance sheet and record the cash received and the new residual interest retained.

These residual interests are classified as available-for-sale securities.

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

Loans totaling $6.7 billion and $3.2 billion were held by the Trusts as of April 30, 2005 and 2004, respectively, and were not recorded on our consolidated balance sheets.

In connection with the sale of mortgage loans, we provide certain representations and warranties allowing the purchaser the option of returning the purchased loans to us under certain conditions. We may recognize losses as a result of the repurchase of loans under these arrangements. We maintain reserves for the repurchase of loans based on historical trends. See Item 8, note 17 to our consolidated financial statements.

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

Provisions in the first exposure draft, as well as tentative decisions reached by the FASB during its deliberations, may require us to consolidate our current QSPEs (the Trusts) established in our Mortgage Services segment. As of April 30, 2005, the Trusts had both assets and liabilities of $6.7 billion. The provisions of the exposure draft are subject to FASB due process and are subject to change. We will continue to monitor the status of the exposure draft, and consider changes, if any, to current structures as a result of the proposed rules.

COMMERCIAL PAPER ISSUANCE

We participate in the U.S. and Canadian commercial paper ("CP") markets to meet daily cash needs and fund mortgage loans. CP is issued by BFC and Block Canada, wholly-owned subsidiaries of the Company. The following chart provides the debt ratings for BFC as of April 30, 2005 and 2004:

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

The following chart provides the debt ratings for Block Canada as of April 30, 2005 and 2004:

	Short-term	Corporate	Trend
DBRS	R-1 (low)	A	Stable
Moody's	P2		

We use capital primarily to fund working capital requirements, pay dividends, repurchase our shares and acquire businesses. Commercial paper borrowings peaked at $2.1 billion in February 2005 related to funding of our participation interests in RALs. No CP was outstanding at April 30, 2005 or 2004.

U.S. CP issuances are supported by unsecured committed lines of credit ("CLOCs"). During fiscal year 2005, we replaced our single $2.0 billion CLOC with two $1.0 billion CLOCs. The two CLOCs are from a consortium of thirty-one banks. The first $1.0 billion CLOC is subject to annual renewal in August 2005, has a one-year term-out provision with a maturity date in August 2006 and has an annual facility fee of ten basis points per annum. The second $1.0 billion CLOC has a maturity date of August 2009 and has an annual facility fee of twelve basis points per annum. These lines are subject to various affirmative and negative covenants, including a minimum net worth covenant.

An additional line of credit of $750.0 million was put into place for the period of January 26 to February 25, 2005 as an alternative to CP issuance during the peak RAL season. This line is subject to various covenants, substantially similar to the primary CLOCs.

These CLOCs were undrawn at April 30, 2005. There are no rating contingencies under the CLOCs.

The Canadian issuances are supported by a credit facility provided by one bank in an amount not to exceed $125.0 million (Canadian). The Canadian CLOC is subject to annual renewal in December 2005. This CLOC was undrawn at April 30, 2005.

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

CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS

A summary of our obligations to make future payments as of April 30, 2005 is as follows:

(in 000s)

	Total	Less Than 1 Year	1 – 3 Years	4 – 5 Years	After 5 Years
Debt	$ 897,046	$ 45	$ 498,916	$ 91	$ 397,994
Long-term obligation to government	213,360	106,680	106,680	–	–
Acquisition payments	38,022	25,159	12,863	–	–
Pension obligation assumed	15,929	2,625	4,545	3,698	5,061
Capital lease obligation	13,550	341	730	997	11,482
Operating leases	708,611	229,768	313,264	124,945	40,634
Total contractual cash obligations	$ 1,886,518	$ 364,618	$ 936,998	$ 129,731	$ 455,171

In October 2004, we issued $400.0 million of 5.125% Senior Notes, due 2014. The Senior Notes are not redeemable by the bondholders prior to maturity. The net proceeds of this transaction were used to repay the $250.0 million in 6¾% Senior Notes, which were due November 1, 2004. The remaining proceeds were used for working capital, capital expenditures, repayment of other debt and other general corporate purposes.

In April 2000, we issued $500.0 million of 8½% Senior Notes, due 2007. The Senior Notes are not redeemable prior to maturity. The net proceeds of this transaction were used to repay a portion of the short-term borrowings that initially funded the acquisition of OLDE.

Future payments related to Business Services acquisitions and capital lease obligations are included in long-term debt on our consolidated balance sheets. Our debt to total capital ratio was 32.4% at April 30, 2005, compared with 31.1% at April 30, 2004.

As of April 30, 2005 we had $850 million remaining under our shelf registration statement for additional debt issuances. As a result of our failure to file this Form 10-K by the SEC's prescribed due date, we may be unable to issue any debt securities under the shelf registration statement for a period of twelve months. We intend to seek an adjustment of the filing date for this Form 10-K as permitted under SEC rules. If such request is granted, we would regain the ability to issue debt securities under our shelf registration statement, although at this time the Company has no intention of doing so.

In connection with our acquisition of the non-attest assets of M&P in August 1999, we assumed certain pension liabilities related to M&P's retired partners. We make payments in varying amounts on a monthly basis, which are included in other noncurrent liabilities.

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

A summary of our commitments as of April 30, 2005, which may or may not require future payments, expire as follows:

(in 000s)

	Total	Less Than 1 Year	1 - 3 Years	4 - 5 Years	After 5 Years
Commitments to fund mortgage loans	$ 3,931,926	$ 3,931,926	$ –	$ –	$–
Commitments to sell mortgage loans	8,707,000	8,707,000	–	–	–
Pledged securities	44,609	44,609	–	–	–
Commitment to fund M&P	75,000	75,000	–	–	–
Franchise Equity Lines of Credit	68,949	20,122	20,476	28,351	–
Mortgage loan repurchase obligations	41,233	41,233	–	–	–
Construction of new building	143,116	103,505	39,611	–	–
Other commercial commitments	8,219	5,221	2,500	458	40
Total commercial commitments	$ 13,020,052	$ 12,928,616	$ 62,587	$ 28,809	$ 40

See discussion of commitments in Item 8, note 17 to our consolidated financial statements.

REGULATORY ENVIRONMENT

The U.S., various state, local, provincial and foreign governments and some self-regulatory organizations have enacted statutes and ordinances, and/or adopted rules and regulations, regulating aspects of our business. These aspects include, but are not limited to, commercial income tax return preparers, income tax courses, the electronic filing of income tax returns, the facilitation of RALs, loan originations and assistance in loan originations, mortgage lending, privacy, consumer protection, franchising, sales methods, brokers, broker-dealers and various aspects of securities transactions, financial planners, investment advisors, accountants and the accounting practice. We seek to determine the applicability of such statutes, ordinances, rules and regulations (collectively, "Laws") and comply with those Laws.

From time to time in the ordinary course of business, we receive inquiries from governmental and self-regulatory agencies regarding the applicability of Laws to our services and products. In response to past inquiries, we have agreed to comply with such Laws, convinced the authorities that such Laws were not applicable or that compliance already exists, and/or modified our activities in the applicable jurisdiction to avoid the application of all or certain parts of such Laws. We believe that the past resolution of such inquiries and our ongoing compliance with Laws have not had a material adverse effect on our consolidated financial statements. We cannot predict what effect future Laws, changes in interpretations of existing Laws, or the results of future regulator inquiries with respect to the applicability of Laws may have on our consolidated financial statements.

NEW ACCOUNTING PRONOUNCEMENTS

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

RECONCILIATION OF NON-GAAP FINANCIAL INFORMATION

We report our financial results in accordance with generally accepted accounting principles ("GAAP"). However, we believe certain non-GAAP performance measures and ratios used in managing the business may provide additional meaningful comparisons between current year results and prior periods, by excluding certain items that do not represent results from our basic operations. Reconciliations to GAAP financial measures are provided below. These non-GAAP financial measures should be viewed in addition to, not as an alternative for, our reported GAAP results.

Origination Margin (in 000s)

Year Ended April 30,	**2005**	Restated 2004	Restated 2003
Total expenses	**$ 749,925**	$ 635,186	$ 493,756
Add: Expenses netted against gain on sale revenues	**378,304**	267,780	162,332
Less:			
Cost of services	**221,300**	193,018	141,419
Cost of acquisition	**169,621**	114,707	59,637
Allocated support departments	**24,161**	21,124	7,630
Other	**20,323**	31,378	28,238
	$ 692,824	$ 542,739	$ 419,164
Divided by origination volume	**$ 31,001,724**	$ 23,256,013	$ 16,577,621
Total cost of origination	**2.23%**	2.33%	2.53%

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

GENERAL

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

Our cash equivalents are primarily held for liquidity purposes and are comprised of high quality, short-term investments, including qualified money market funds. As of April 30, 2005, our non-restricted cash and cash equivalents had an average maturity of less than three months with an average credit quality of AAA. With such a short maturity, our portfolio's market value is relatively insensitive to interest rate changes. We hold investments in fixed income securities at our captive insurance subsidiary. See the table below for sensitivities to changes in interest rates. See additional discussion of interest rate risk included below in Mortgage Services and Investment Services.

At April 30, 2005, no commercial paper was outstanding. For fiscal year 2005, the average issuance term was 29 days and the average outstanding balance was $388.2 million. As commercial paper and bank borrowings are seasonal, interest rate risk typically increases through our third fiscal quarter and declines to zero by fiscal year-end. See Item 7, "Financial Condition" for additional information.

Our current portion of long-term debt and long-term debt at April 30, 2005 consists primarily of fixed-rate Senior Notes; therefore, a change in interest rates would have no impact on consolidated pretax earnings. See Item 8, note 10 to our consolidated financial statements.

EQUITY PRICE RISK >>> We have exposure to the equity markets in several ways. The largest exposures are through our deferred compensation plans and equity investments at our captive insurance subsidiary. Within the deferred compensation plans we have mismatches in asset and liability amounts and investment choices (both fixed-income and equity). At April 30, 2005 and 2004, the impact of a 10% market value change in the combined equity assets held by our deferred compensation plans and our captive insurance subsidiary would be approximately $9.3 million and $8.9 million, respectively, assuming no offset for the liabilities.

TAX SERVICES

FOREIGN EXCHANGE RATE RISK >>> Our operations in international markets are exposed to movements in currency exchange rates. The currencies involved are the Canadian dollar, the Australian dollar and the British pound. We translate revenues and expenses related to these operations at the average of exchange rates in effect during the period. Assets and liabilities of foreign subsidiaries are translated into U.S. dollars at exchange rates prevailing at the end of the year. Translation adjustments are recorded as a separate component of other comprehensive income in stockholders' equity. Translation of financial results into U.S. dollars does not presently materially affect, and has not historically materially affected, our consolidated financial results, although such changes do affect the year-to-year comparability of the operating results in U.S. dollars of our international businesses. We estimate a 10% change in foreign exchange rates by itself would impact consolidated pretax income in fiscal years 2005 and 2004 by approximately $1.3 million and cash balances at April 30, 2005 and 2004 by $4.7 million and $6.1 million, respectively.

MORTGAGE SERVICES

INTEREST RATE RISK – PRIME ORIGINATIONS >>> We regularly enter into rate-lock commitments with our customers to fund prime mortgage loans within specified periods of time. The fair value of rate-lock commitments is calculated based on the current market pricing of short sales of FNMA, FHLMC and GNMA mortgage-backed securities and the coupon rates of the eligible loans. At April 30, 2005, we recorded an asset of $0.8 million related to rate-lock commitments.

We sell short FNMA, FHLMC and GNMA mortgage-backed securities to reduce the risk related to our prime commitments to fund fixed-rate prime loans. The position on certain, or all, of the fixed-rate mortgage loans is closed approximately 10-15 days prior to standard Public Securities Association ("PSA") settlement dates. At April 30, 2005 we recorded a liability of $0.8 million related to these instruments.

To finance our prime originations, we use a warehouse facility with capacity up to $25 million, which bears interest at one-month LIBOR plus 140 to 200 basis points. As of April 30, 2005, the balance outstanding under this facility was $4.4 million.

INTEREST RATE RISK – NON-PRIME ORIGINATIONS >>> Interest rate changes impact the value of the loans in our origination pipeline, the beneficial interest in Trusts and forward loan sale commitments.

We are exposed to interest rate risk associated with loans in our origination pipeline, consisting of fixed- and adjustable-rate loans, which are generally sold through whole loan sales or

securitizations. We have binding and non-binding commitments to fund mortgage loans of $0.9 billion and $3.0 billion, respectively, at April 30, 2005, subject to conditions and loan contract verification. Of these commitments, we estimate only $2.0 billion will likely be originated.

As a result of whole loan sales to the Trusts, we remove the mortgage loans from our balance sheet and record the gain on sale, cash and a beneficial interest in Trusts, which represents the ultimate expected outcome from the disposition of the loans. See Item 7, "Off-Balance Sheet Financing Arrangements." At April 30, 2005, there were $6.7 billion of loans held in the Trusts and the value of our beneficial interest in Trusts was $215.4 million. Changes in interest rates and other market factors may result in a change in value of our beneficial interest in Trusts.

We use forward loan sale commitments to reduce risk associated with loans in the pipeline. These commitments, which represent an obligation to sell a non-prime loan at a specific price in the future, increase in value as interest rates rise and decrease as rates fall. At April 30, 2005, there were $8.7 billion in forward loan sale commitments, and most of them give us the option to under- or over-deliver by five to ten percent. Forward loan sale commitments for non-prime loans are not considered derivative instruments and are therefore not recorded in our financial statements. Forward loan sale commitments lock in the execution price on the loans that will ultimately be delivered into a whole loan sale. With $8.7 billion of forward loan sale commitments at April 30, 2005 (and the option to adjust the commitment amount to between $7.8 billion and $9.6 billion), net of pipeline loans estimated at $2.0 billion and the anticipated sale of $6.7 billion in loans by the Trusts, we believe changes in interest rates will not have a material impact on the gains or losses we record on our commitments to fund and sell mortgage loans.

We use interest rate swaps to reduce interest rate risk associated with non-prime loans. We generally enter into interest rate swap arrangements related to existing loan applications with rate-lock commitments and, beginning at the end of our second quarter, for rate-lock commitments we expect to make in the next 30 days. Interest rate swaps represent an agreement to exchange interest rate payments, effectively converting our fixed financing costs into a floating rate. These contracts increase in value as rates rise and decrease in value as rates fall. At April 30, 2005, we had a liability of $1.3 million on our balance sheet related to interest rate swaps. See table below for sensitivities to changes in interest rates for swaps.

DELIVERY RISK >>> We have exposure to delivery risk in our non-prime origination operations, which regularly enter into forward loan sale commitments prior to loans being originated. It is possible that we will be unable to originate the loans or that the loans originated will not meet the required characteristics of the forward loan sale commitments. Several remedies are available, although use of the remedies could reduce the execution price or the effectiveness of the forward loan sale commitment in reducing interest rate risk.

RESIDUAL INTERESTS >>> Relative to modeled assumptions, an increase or decrease in interest rates would impact the value of our residual interests and could affect accretion income related to our residual interests. Residual interests bear the interest rate risk embedded within the securitization due to an initial fixed-rate period on the loans versus a floating-rate funding cost. Residual interests also bear the on-going risk that the floating interest rate earned on the mortgage loans is different from the floating interest rate on the bonds sold in the securitization.

We enter into interest rate caps to mitigate interest rate risk associated with mortgage loans that will be securitized and residual interests that are classified as trading securities because they will be sold in a subsequent NIM transaction. The caps enhance the marketability of the securitization and NIM transactions. An interest rate cap represents a right to receive cash if interest rates rise above a contractual strike rate, its value therefore increases as interest rates rise. The interest rate used in our interest rate caps is based on LIBOR. At April 30, 2005 we recorded an asset totaling $12.5 million related to interest rate caps.

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

It is our policy to use derivative instruments only for the purpose of offsetting or reducing the risk of loss associated with a defined or quantified exposure.

MORTGAGE SERVICING RIGHTS >>> Declining interest rates may cause increased refinancing activity, which reduces the life of the loans underlying the residual interests and MSRs, thereby reducing their fair value. The fair value of MSRs generally increases in a rising rate environment, although MSRs are recorded at the lower of cost or market value. Reductions in the fair value of these assets impact earnings through impairment charges. See Item 8, note 6 to our consolidated financial statements for further sensitivity analysis of other MSR valuation assumptions.

INVESTMENT SERVICES

INTEREST RATE RISK >>> HRBFA holds interest bearing receivables from customers, brokers, dealers and clearing organizations, which consist primarily of amounts due on margin transactions and are generally short-term in nature. We fund

these short-term assets with short-term variable rate liabilities from customers, brokers and dealers, including stock loan activity. Although there may be differences in the timing of the re-pricing related to these assets and liabilities, we believe we are not significantly exposed to interest rate risk in this area. As a result, any change in interest rates would not materially impact our consolidated earnings.

Our fixed-income trading portfolio is affected by changes in market rates and prices. The risk is the loss of income arising from adverse changes in the value of the trading portfolio. We value the trading portfolio at quoted market prices and the market value of our trading portfolio at April 30, 2005 was approximately $6.3 million, net of $4.8 million in securities sold short. See table below for sensitivities to changes in interest rates. With respect to our fixed-income securities portfolio, we manage our market price risk exposure by limiting concentration risk, maintaining minimum credit quality and limiting inventory to anticipated retail demand and current market conditions.

The sensitivities of certain financial instruments to changes in interest rates as of April 30, 2005 and 2004 are presented below. The following table represents hypothetical instantaneous and sustained parallel shifts in interest rates and should not be relied on as an indicator of future expected results.

(in 000s)

	Fair Value at April 30, 2005	Basis Point Change						
		– 200	– 100	– 50	+ 50	+ 100	+ 200	+ 300
Residual interests in securitizations – available-for-sale	**$ 205,936**	**$ 84,845**	**$ 30,417**	**$ 13,637**	**$ (13,520)**	**$ (28,174)**	**$ (51,466)**	**$ (75,296)**
Interest rate caps	**12,458**	**–**	**205**	**4,580**	**20,746**	**29,262**	**46,751**	**64,195**
Investments at captive insurance subsidiary	**9,968**	**1,079**	**522**	**256**	**(248)**	**(487)**	**(942)**	**(1,368)**
Fixed income – trading (net)	**6,252**	**1,958**	**893**	**426**	**(390)**	**(749)**	**(1,383)**	**(1,921)**
Interest rate swaps	**(1,325)**	**(84,723)**	**(43,024)**	**(19,524)**	**19,524**	**43,024**	**84,723**	**123,771**

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

DISCUSSION OF FINANCIAL RESPONSIBILITY >>>

We at H&R Block are guided by our core values of client focus, integrity, excellence, respect and teamwork. These values govern the manner in which we serve clients and each other, and are embedded in the execution and delivery of our responsibilities to our shareholders. H&R Block's Management is responsible for the integrity and objectivity of the information contained in this document. Management is responsible for the consistency of reporting this information and for ensuring that accounting principles generally accepted in the United States are used. In discharging this responsibility, Management maintains an extensive program of internal audits and require the management teams of our individual subsidiaries to certify their respective financial information. Our system of internal control over financial reporting also includes formal policies and procedures, including a Code of Business Ethics and Conduct program designed to encourage and assist all employees and directors in living up to high standards of integrity.

The Audit Committee of the Board of Directors, composed solely of outside and independent directors, meets periodically with management, the independent auditors and the chief internal auditor to review matters relating to our financial statements, internal audit activities, internal accounting controls

and non-audit services provided by the independent auditors. The independent auditors and the chief internal auditor have full access to the Audit Committee and meet, both with and without management present, to discuss the scope and results of their audits, including internal control, audit and financial matters.

KPMG LLP audited our 2005 and 2004 consolidated financial statements and PricewaterhouseCoopers LLP audited our 2003 consolidated financial statements. Their audits were conducted in accordance with the standards of the Public Company Accounting Oversight Board (U.S.).

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING >>>

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f). Under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in "Internal Control – Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") as of April 30, 2005.

Based on our assessment, management determined that a material weakness existed in the Company's internal controls over accounting for income taxes as of April 30, 2005. Specifically, the Company did not maintain sufficient resources in the corporate tax function to accurately identify, evaluate and report, in a timely manner, non-routine and complex transactions. In addition, the Company had not completed the requisite historical analysis and related reconciliations to ensure tax balances were appropriately stated prior to the completion of the Company's internal control activities. These deficiencies resulted in errors in the Company's accounting for income taxes. These errors were corrected prior to issuance of the consolidated financial statements as of and for the year ended April 30, 2005. In the aggregate, these deficiencies represent a material weakness in internal control over financial reporting on the basis that there is a more than remote likelihood that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected by its internal control over financial reporting. Because of this material weakness in internal control over financial reporting, management concluded that, as of April 30, 2005, the Company's internal control over financial reporting was not effective based on the criteria set forth by COSO.

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

William L. Trubeck
Executive Vice President and Chief Financial Officer

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM >>>

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

We have audited the accompanying consolidated balance sheets of H&R Block, Inc. and its subsidiaries (the Company) as of April 30, 2005 and 2004, and the related consolidated statements of income and comprehensive income, stockholders' equity, and cash flows for each of the years in the two-year period ended April 30, 2005. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of H&R Block, Inc. and its subsidiaries as of April 30, 2005 and 2004, and the results of their operations and their cash flows for each of the years in the two-year period ended April 30, 2005, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 1 to the consolidated financial statements, the Company changed its method of accounting to adopt Emerging Issues Task Force Issue No. 00-21, "Revenue Arrangements with Multiple Deliverables," and Statement of

Financial Accounting Standards No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure" during the year ended April 30, 2004.

As discussed in Note 2 to the consolidated financial statements, the Company restated its financial statements for its fiscal year ended April 30, 2004.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of April 30, 2005, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"), and our report dated July 29, 2005 expressed an unqualified opinion on management's assessment of, and an adverse opinion on the effective operation of, internal control over financial reporting.

KPMG LLP

Kansas City, Missouri
July 29, 2005, except as to note 19,
which is as of August 4, 2005

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM >>>

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

We have audited management's assessment, included in the accompanying *Management's Report On Internal Control Over Financial Reporting (Item 9A(b))*,that H&R Block, Inc. and subsidiaries (the Company) did not maintain effective internal control over financial reporting as of April 30, 2005, because of the effect of the material weakness identified in management's assessment that the Company's controls and procedures over accounting for income taxes were ineffective, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. The following material weakness has been identified and included in management's assessment: The Company did not maintain sufficient resources in the corporate tax function to accurately identify, evaluate and report, in a timely manner, nonroutine and complex transactions. In addition, the Company had not completed the requisite historical analysis and related reconciliations to ensure tax balances were appropriately stated prior to the completion of the Company's internal control activities. These deficiencies resulted in errors in the Company's accounting for income taxes. Because of these deficiencies, there is more than a remote likelihood that a material misstatement in the Company's annual or interim financial statements due to errors in accounting for income taxes could occur and not be prevented or detected by its internal control over financial reporting.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of H&R Block, Inc. and subsidiaries as of April 30, 2005 and 2004, and the related consolidated statements of income and comprehensive income, stockholders' equity, and cash flows for each of the years in the two-year period ended April 30, 2005. The aforementioned material weakness was considered in determining the nature, timing, and extent of audit tests applied in our audit of the fiscal year 2005 consolidated financial statements, and this report does not affect our report dated July 29, 2005, which expressed an unqualified opinion on those consolidated financial statements.

In our opinion, management's assessment that H&R Block, Inc. and subsidiaries did not maintain effective internal control over financial reporting as of April 30, 2005, is fairly stated, in all material respects, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Also, in our opinion, because of the effect of the material weakness described above on the achievement of the objectives of the control criteria, the Company has not maintained effective internal control over financial reporting as of April 30, 2005, based on criteria established in *Internal Control – Integrated Framework issued* by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO").

KPMG LLP

Kansas City, Missouri
July 29, 2005

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM >>>

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

In our opinion, the accompanying consolidated statements of income and comprehensive income, of cash flows and of stockholders' equity present fairly, in all material respects, the results of operations and cash flows of H&R Block, Inc. and its subsidiaries (the "Company") for the year ended April 30, 2003 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 2, the financial statements have been restated for the year ended April 30, 2003.

PricewaterhouseCoopers LLP

June 10, 2003, except for Note 2
as to which the date is July 29, 2005,
and Note 19 and Note 22 as to
which the date is August 4, 2005
Kansas City, Missouri

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

(Amounts in 000s, except per share amounts)

Year ended April 30,	2005	Restated[1] 2004	Restated[1] 2003
REVENUES >>>			
Service revenues	**$ 2,920,586**	$ 2,639,367	$ 2,295,936
Other revenues:			
Gains on sales of mortgage assets, net	**822,075**	918,297	827,127
Product and other revenues	**478,443**	460,421	412,995
Interest income	**198,915**	229,795	195,068
	4,420,019	4,247,880	3,731,126
OPERATING EXPENSES >>>			
Cost of service revenues	**1,999,220**	1,794,501	1,625,937
Cost of other revenues	**416,421**	380,365	300,749
Impairment of goodwill	**–**	–	122,251
Selling, general and administrative	**952,125**	848,675	760,864
	3,367,766	3,023,541	2,809,801
Operating income	**1,052,253**	1,224,339	921,325
Interest expense	**62,367**	71,218	76,723
Other income, net	**27,829**	9,854	10,962
Income before taxes	**1,017,715**	1,162,975	855,564
Income taxes	**381,858**	447,367	377,949
Net income before change in accounting principle	**635,857**	715,608	477,615
Cumulative effect of change in accounting principle for multiple deliverable revenue arrangements, less tax benefit of $4,031	**–**	(6,359)	–
NET INCOME	**$ 635,857**	$ 709,249	$ 477,615
BASIC EARNINGS PER SHARE >>>			
Before change in accounting principle	**$ 1.92**	$ 2.02	$ 1.33
Cumulative effect of change in accounting principle	**–**	(.02)	–
Net income	**$ 1.92**	$ 2.00	$ 1.33
DILUTED EARNINGS PER SHARE >>>			
Before change in accounting principle	**$ 1.88**	$ 1.98	$ 1.30
Cumulative effect of change in accounting principle	**–**	(.02)	–
Net income	**$ 1.88**	$ 1.96	$ 1.30
COMPREHENSIVE INCOME >>>			
Net income	**$ 635,857**	$ 709,249	$ 477,615
Unrealized gains on securities, net of taxes:			
Unrealized holding gains arising during the period, less taxes of $36,670, $64,174, and $70,983	**59,409**	103,886	114,885
Reclassification adjustment for gains included in income, less taxes of $40,661, $67,561 and $72,370	**(65,848)**	(109,385)	(117,073)
Change in foreign currency translation adjustments	**8,946**	12,355	17,415
	$ 638,364	$ 716,105	$ 492,842

See accompanying notes to consolidated financial statements.

[1] See note 2.

CONSOLIDATED BALANCE SHEETS

(Amounts in 000s, except share and per share amounts)

April 30,	2005	Restated[1] 2004
ASSETS		
CURRENT ASSETS >>>		
Cash and cash equivalents	**$ 1,100,213**	$ 1,072,745
Cash and cash equivalents – restricted	**516,909**	545,428
Receivables from customers, brokers, dealers and clearing organizations, less allowance for doubtful accounts of $1,151 and $1,103	**590,226**	625,076
Receivables, less allowance for doubtful accounts of $38,879 and $53,418	**418,788**	329,219
Prepaid expenses and other current assets	**444,498**	381,024
Total current assets	**3,070,634**	2,953,492
Residual interests in securitizations – available-for-sale	**205,936**	210,973
Beneficial interest in Trusts – trading	**215,367**	153,818
Mortgage servicing rights	**166,614**	113,821
Property and equipment, net	**330,150**	273,303
Intangible assets, net	**247,092**	293,477
Goodwill, net	**1,015,947**	993,467
Other assets	**287,543**	240,381
Total assets	**$ 5,539,283**	$ 5,232,732
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES >>>		
Current portion of long-term debt	**$ 25,545**	$ 275,669
Accounts payable to customers, brokers and dealers	**950,684**	1,065,793
Accounts payable, accrued expenses and other	**564,749**	461,640
Accrued salaries, wages and payroll taxes	**318,644**	280,367
Accrued income taxes	**349,298**	413,868
Total current liabilities	**2,208,920**	2,497,337
Long-term debt	**923,073**	545,811
Other noncurrent liabilities	**430,919**	369,769
Total liabilities	**3,562,912**	3,412,917
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY >>>		
Common stock, no par, stated value $.01 per share, 800,000,000 shares authorized, 435,890,796 shares issued at April 30, 2005 and 2004	**4,359**	4,359
Convertible preferred stock, no par, stated value $.01 per share, 500,000 shares authorized	**–**	–
Additional paid-in capital	**598,388**	542,885
Accumulated other comprehensive income	**68,718**	66,211
Retained earnings	**3,188,785**	2,695,916
Less treasury shares, at cost	**(1,883,879)**	(1,489,556)
Total stockholders' equity	**1,976,371**	1,819,815
Total liabilities and stockholders' equity	**$ 5,539,283**	$ 5,232,732

See accompanying notes to consolidated financial statements.

[1] See note 2.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in 000s)

Year Ended April 30,	2005	Restated[1] 2004	Restated[1] 2003
CASH FLOWS FROM OPERATING ACTIVITIES >>>			
Net income	**$ 635,857**	$ 709,249	$ 477,615
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	**183,867**	179,131	169,092
Provision for bad debt	**52,221**	53,663	49,748
Provision for deferred taxes on income	**(42,345)**	(986)	(29,944)
Accretion of residual interests in securitizations	**(137,610)**	(186,466)	(146,343)
Impairment of residual interests in securitizations	**12,235**	26,063	54,111
Realized gain on sale of previously securitized residual interests	**(15,396)**	(40,689)	(93,307)
Additions to trading securities – residual interests in securitizations	**(115,657)**	(327,996)	(542,544)
Proceeds from net interest margin transactions	**98,743**	310,358	541,791
Additions to mortgage servicing rights	**(137,510)**	(84,274)	(65,345)
Amortization of mortgage servicing rights	**84,191**	69,718	47,107
Net change in beneficial interest in Trusts	**(61,549)**	(17,222)	(84,655)
Impairment of goodwill	**–**	–	122,251
Tax benefit from stock option exercises	**10,961**	23,957	37,304
Stock-based compensation	**44,139**	25,718	2,079
Cumulative effect of change in accounting principle	**–**	6,359	–
Changes in assets and liabilities, net of acquisitions:			
Cash and cash equivalents – restricted	**28,519**	(107,186)	(286,069)
Receivables for customers, brokers dealers and clearing organizations	**33,892**	(108,846)	326,824
Receivables	**(121,177)**	26,294	(72,423)
Mortgage loans held for sale:			
Originations and purchases	**(31,003,456)**	(23,255,483)	(17,827,828)
Sales and principal repayments	**30,990,566**	23,246,815	17,837,323
Prepaid expenses and other current assets	**(53,858)**	26,978	43,818
Accounts payable to customers, brokers and dealers	**(115,109)**	203,099	(40,507)
Accounts payable, accrued expenses and other	**113,419**	(104,563)	60,454
Accrued salaries, wages and payroll taxes	**38,277**	70,521	(42,911)
Accrued income taxes	**(29,906)**	93,770	111,822
Other, net	**20,479**	14,481	40,272
Net cash provided by operating activities	**513,793**	852,463	689,735
CASH FLOWS FROM INVESTING ACTIVITIES >>>			
Available-for-sale securities:			
Purchases of available-for-sale securities	**(10,175)**	(11,434)	(14,614)
Cash received from residual interests in securitizations	**136,045**	193,606	140,795
Cash proceeds from sale of previously securitized residuals	**16,485**	53,391	142,486
Sales of other available-for-sale securities	**9,752**	15,410	14,081
Purchases of property and equipment, net	**(209,458)**	(123,826)	(148,706)
Payments made for business acquisitions, net of cash acquired	**(37,621)**	(280,865)	(26,408)
Other, net	**36,562**	26,332	19,895
Net cash provided by (used in) investing activities	**(58,410)**	(127,386)	127,529
CASH FLOWS FROM FINANCING ACTIVITIES >>>			
Repayments of commercial paper	**(5,191,623)**	(4,618,853)	(9,925,516)
Proceeds from issuance of commercial paper	**5,191,623**	4,618,853	9,925,516
Repayments of Senior Notes	**(250,000)**	–	–
Proceeds from issuance of Senior Notes	**395,221**	–	–
Payments on acquisition debt	**(25,664)**	(59,003)	(57,469)
Dividends paid	**(142,988)**	(138,397)	(125,898)
Acquisition of treasury shares	**(530,022)**	(519,862)	(317,570)
Proceeds from issuance of common stock	**136,102**	119,956	126,325
Other, net	**(10,564)**	31,681	(2,572)
Net cash used in financing activities	**(427,915)**	(565,625)	(377,184)
Net increase in cash and cash equivalents	**27,468**	159,452	440,080
Cash and cash equivalents at beginning of the year	**1,072,745**	913,293	473,213
Cash and cash equivalents at end of the year	**$ 1,100,213**	$ 1,072,745	$ 913,293

See accompanying notes to consolidated financial statements.

[1] See note 2.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(Amounts in 000s, except per share amounts)

	Common Stock		Convertible Preferred Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Treasury Stock		Total Equity
	Shares	Amount	Shares	Amount				Shares	Amount	
Balances at April 30, 2002 [1]	435,891	$ 4,359	–	$ –	$ 465,872	$ 44,128	$ 1,767,702	(73,639)	$ (912,641)	$ 1,369,420
Prior year adjustment [2]	–	–	–	–	–	–	5,645	–	–	5,645
Balances at April 30, 2002 [2]	435,891	4,359	–	–	465,872	44,128	1,773,347	(73,639)	(912,641)	1,375,065
Net income [2]	–	–	–	–	–	–	477,615	–	–	477,615
Unrealized translation gain	–	–	–	–	–	17,415	–	–	–	17,415
Change in net unrealized gain on marketable securities [2]	–	–	–	–	–	(2,188)	–	–	–	(2,188)
Shares issued for:										
Stock options	–	–	–	–	27,241	–	–	10,140	135,409	162,650
Restricted shares	–	–	–	–	5	–	–	(128)	(1,306)	(1,301)
ESPP	–	–	–	–	1,095	–	–	187	2,515	3,610
Acquisition of treasury shares	–	–	–	–	–	–	–	(13,248)	(317,570)	(317,570)
Cash dividends paid – $.35 per share	–	–	–	–	–	–	(125,898)	–	–	(125,898)
Balances at April 30, 2003 [2]	435,891	4,359	–	–	494,213	59,355	2,125,064	(76,688)	(1,093,593)	1,589,398
Net income [2]	–	–	–	–	–	–	709,249	–	–	709,249
Unrealized translation gain	–	–	–	–	–	12,355	–	–	–	12,355
Change in net unrealized gain on marketable securities [2]	–	–	–	–	–	(5,499)	–	–	–	(5,499)
Stock-based compensation expense	–	–	–	–	25,718	–	–	–	–	25,718
Shares issued for:										
Stock options	–	–	–	–	21,585	–	–	7,856	117,975	139,560
Restricted shares	–	–	–	–	385	–	–	145	2,103	2,488
ESPP	–	–	–	–	984	–	–	255	3,821	4,805
Acquisition of treasury shares	–	–	–	–	–	–	–	(21,266)	(519,862)	(519,862)
Cash dividends paid – $.39 per share	–	–	–	–	–	–	(138,397)	–	–	(138,397)
Balances at April 30, 2004 [2]	435,891	4,359	–	–	542,885	66,211	2,695,916	(89,698)	(1,489,556)	1,819,815
Net income	**–**	**–**	**–**	**–**	**–**	**–**	**635,857**	**–**	**–**	**635,857**
Unrealized translation gain	**–**	**–**	**–**	**–**	**–**	**8,946**	**–**	**–**	**–**	**8,946**
Change in net unrealized gain on marketable securities	**–**	**–**	**–**	**–**	**–**	**(6,439)**	**–**	**–**	**–**	**(6,439)**
Stock-based compensation expense	**–**	**–**	**–**	**–**	**44,139**	**–**	**–**	**–**	**–**	**44,139**
Shares issued for:										
Stock options	**–**	**–**	**–**	**–**	**15,892**	**–**	**–**	**6,959**	**124,263**	**140,155**
Restricted shares	**–**	**–**	**–**	**–**	**(5,718)**	**–**	**–**	**352**	**6,098**	**380**
ESPP	**–**	**–**	**–**	**–**	**1,190**	**–**	**–**	**301**	**5,338**	**6,528**
Acquisition of treasury shares	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(22,564)**	**(530,022)**	**(530,022)**
Cash dividends paid – $.43 per share	**–**	**–**	**–**	**–**	**–**	**–**	**(142,988)**	**–**	**–**	**(142,988)**
Balances at April 30, 2005	**435,891**	**$ 4,359**	**–**	**$ –**	**$ 598,388**	**$ 68,718**	**$ 3,188,785**	**(104,650)**	**$ (1,883,879)**	**$ 1,976,371**

See accompanying notes to consolidated financial statements.

[1] As previously reported.
[2] As restated, see note 2.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NATURE OF OPERATIONS >>> Our operating subsidiaries provide a variety of financial services to the general public, principally in the U.S. Specifically, we offer tax return preparation; origination, sale and servicing of non-prime and prime mortgages; investment services through a broker-dealer; tax preparation and related software; refund anticipation loans offered by a third-party lending institution; and accounting, tax and consulting services to business clients. Tax preparation services are also provided in Canada, Australia and the United Kingdom.

PRINCIPLES OF CONSOLIDATION >>> The consolidated financial statements include the accounts of the Company and our wholly-owned and majority-owned subsidiaries. All material intercompany transactions and balances have been eliminated.

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

RECLASSIFICATIONS >>> Certain reclassifications have been made to prior year amounts to conform to the current year presentation. The previously reported International Tax Operations segment has been aggregated with U.S. Tax Operations in the Tax Services segment.

We have modified our income statement to present aggregate costs related to our revenue categories, rather than presenting operating expenses by their natural classification. All direct costs, both fixed and variable, of revenues are included in these categories.

We reclassified $167.7 million and $103.3 million for fiscal years 2004 and 2003, respectively, from interest income to gain on sale, representing excess cash received from our beneficial interest in Trusts. The beneficial interest in Trusts is reported at fair value at each balance sheet date. Changes in its fair value are included in current period earnings. The excess cash received together with the and mark-to-market adjustment for each period have been classified as gain on sale of mortgage loans. We also increased gains on sales of mortgage for fiscal years 2004 and 2003, related to the reclassification of certain compensation and benefits expenses previously presented net in revenues.

Deferred taxes and taxes payable have been reclassified for a change in method of income tax reporting we initiated during fiscal year 2004 resulting in a decrease to total assets and liabilities of $101.3 million at April 30, 2004.

These reclassifications had no effect on the results of operations or stockholders' equity as previously reported. Adjustments related to the restatement of previously issued financial statements are detailed in note 2.

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

CASH AND CASH EQUIVALENTS >>> Cash and cash equivalents include cash on hand, cash due from banks and securities purchased under agreements to resell. For purposes of the consolidated balance sheets and consolidated statements of cash flows, all non-restricted highly liquid instruments purchased with an original maturity of three months or less are considered to be cash equivalents. Book overdrafts included in accounts payable totaled $92.7 million and $104.8 million at April 30, 2005 and 2004, respectively.

Our broker-dealer purchases securities under agreements to resell and accounts for them as collateralized financings. The securities are carried at the amounts at which the securities will be subsequently resold, as specified in the respective agreements. It is our policy to take possession of securities, subject to resale agreements. The securities are revalued daily and collateral added whenever necessary to bring market value of the underlying collateral to a level equal to or greater than the repurchase amount specified in the contracts.

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

MARKETABLE SECURITIES – TRADING >>> Certain marketable debt securities held by our broker-dealer are classified as trading, carried at market value based on quoted prices and marked to market through the consolidated income statements. Certain residual interests in securitizations of

mortgage loans are classified as trading based on management's intentions, carried at market value based on discounted cash flow models and marked to market through the consolidated income statements. These securities are included in prepaid expenses and other current assets on the consolidated balance sheets.

RECEIVABLES FROM CUSTOMERS, BROKERS, DEALERS AND CLEARING ORGANIZATIONS AND ACCOUNTS PAYABLE TO CUSTOMERS, BROKERS AND DEALERS >>> Customer receivables and payables consist primarily of amounts due on margin and cash transactions. These receivables are collateralized by customers' securities held, which are not reflected in the accompanying consolidated financial statements.

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

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

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

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

We estimate future cash flows from these residuals and value them using assumptions we believe to be consistent with those of unaffiliated third-party purchasers. We estimate the fair value of residuals by computing the present value of the excess of the weighted-average interest rate on the loans sold plus estimated collection of prepayment penalty fee income over the sum of (1) the coupon on the securitization bonds, (2) a contractual servicing fee paid to the servicer of the loans, which is usually Option One, (3) expected losses to be incurred on the portfolio of the loans sold, as projected to occur, over the lives of the loans, (4) fees payable to the trustee and insurer, if applicable, and (5) payments made to investors on NIM bonds, if applicable. The residual valuation takes into consideration the current and expected interest rate environment, including projected changes in future interest rates and the timing of such changes. Prepayment and loss assumptions used in estimating the cash flows are based on evaluation of the actual experience of the servicing portfolio, the characteristics of the applicable loan portfolio, as well as also taking into consideration the current and expected economic and interest rate environment and its expected impact. The estimated cash flows are discounted at an interest rate we believe an unaffiliated third-party purchaser would require as a rate of return on a financial instrument with a similar risk profile. We evaluate, and adjust if necessary, the fair values of residual interests quarterly by updating the actual performance and expected assumptions in the discounted cash flow models based on current information and events and by estimating, or validating with third-party experts, if necessary, what a market participant would use in determining the current fair value. To the extent that actual excess cash flows are different from estimated excess cash flows, the fair value of the residual would increase or decrease.

BENEFICIAL INTEREST IN TRUSTS – TRADING >>> The beneficial interest in Trusts is recorded as a result of daily non-prime whole loan sales to Trusts. The beneficial interest is classified as a trading security, based on management's intentions, is carried at market value and is marked to market through the consolidated income statements. Market value is calculated as the present value of future cash flows, limited by the ultimate expected outcome from the disposition of the loans by the Trusts.

MORTGAGE SERVICING RIGHTS >>> MSRs retained in the sale of mortgage loans are recorded at allocated carrying amounts based on relative fair values at the time of the sale. The MSRs are carried at the lower of cost or fair value. Fair values of MSRs are determined based on the present value of estimated future cash flows related to servicing loans. Assumptions used in estimating the value of MSRs include market discount rates and

anticipated prepayment speeds including default, estimated ancillary fee income and other economic factors. The prepayment speeds are estimated using our historical experience and third-party market sources. The MSRs are amortized to earnings in proportion to, and over the period of, estimated net future servicing income. MSRs are reviewed quarterly for potential impairment. Impairment is assessed based on the fair value of each risk stratum. MSRs are stratified by the fiscal year of the loan sale date, which approximates date of origination, and loan type, usually 6-month adjustable, 2- to 3-year adjustable and fixed rate.

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

We capitalize certain allowable costs associated with software developed or purchased for internal use. These costs are amortized over 36 months using the straight-line method.

INTANGIBLE ASSETS AND GOODWILL >>> We account for intangible assets and goodwill in accordance with Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets," ("SFAS 142"). We test goodwill and other indefinite life intangible assets for impairment annually or more frequently, whenever events occur or circumstances change which would, more likely than not, reduce the fair value of a reporting unit below its carrying value. We have defined our reporting units as our operating segments or one level below. The first step of the impairment test is to compare the estimated fair value of the reporting unit to its carrying value. If the carrying value is less than fair value, no impairment exists. If the carrying value is greater than fair value, a second step is performed to determine the fair value of goodwill and the amount of impairment loss, if any. These tests were completed and no indications of goodwill impairment were found during fiscal year 2005 or 2004. During fiscal year 2003, impairment charges of $108.8 million and $13.5 million were recorded in the Investment Services and Business Services segments, respectively.

In addition, long-lived assets, including intangible assets with finite lives, are assessed for impairment whenever events or circumstances indicate the carrying value may not be fully recoverable by comparing the carrying value to future undiscounted cash flows. To the extent there is impairment, an analysis is performed based on several criteria, including, but not limited to, revenue trends, discounted operating cash flows and other operating factors to determine the impairment amount. No material impairment adjustments to other intangible assets or other long-lived assets were made during the three-year period ended April 30, 2005. The weighted-average life of intangible assets with finite lives is nine years.

COMMERCIAL PAPER >>> Short-term borrowings are used to finance temporary liquidity needs and various financial activities. There was no commercial paper outstanding at April 30, 2005 and 2004.

LITIGATION >>> Our policy is to routinely assess the likelihood of any adverse judgments or outcomes related to legal matters, as well as ranges of probable losses. A determination of the amount of the reserves required, if any, for these contingencies is made after thoughtful analysis of each known issue and an analysis of historical experience in accordance with Statement of Financial Accounting Standards No. 5, "Accounting for Contingencies," and related pronouncements. We record reserves related to certain legal matters for which it is probable that a loss has been incurred and the range of such loss can be estimated. With respect to other matters, management has concluded that a loss is only reasonably possible or remote and, therefore, no liability is recorded.

INCOME TAXES >>> We account for income taxes in accordance with Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" ("SFAS 109"). SFAS 109 requires us to record deferred income tax assets and liabilities for future tax consequences attributable to differences between the financial statement carrying value of existing assets and liabilities and their respective tax bases. Our deferred tax assets include tax loss and credit carryforwards and are reduced by a valuation allowance if, based on available evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Our current deferred tax assets are included in prepaid expenses and other current assets on the consolidated balance sheets. Noncurrent deferred tax assets are included in other assets on our consolidated balance sheets.

We file a consolidated Federal tax return on a calendar year basis.

REVENUE RECOGNITION >>> Service revenues consist primarily of fees for preparation and filing of tax returns, both in offices and through our online programs, fees associated with our POM guarantee program, mortgage loan-servicing fees, fees for consulting services and brokerage commissions. Generally, service revenues are recorded in the period in which the service is performed. Retail and online tax preparation revenues are recorded when a completed return is filed or accepted by the customer. POM revenues are deferred and recognized over the

term of the guarantee based upon historic and actual payment of claims. Revenues for services rendered in connection with the Business Services segment are recognized on a time and materials basis. Investment Services' production revenue is recognized on a trade-date basis.

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

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

Product and other revenues include royalties, RAL participation revenues and sales of software products. Franchise royalties, which are based upon the contractual percentages of franchise revenues, are recorded in the period in which the franchise provides the service. RAL participation revenue is recorded when we purchase our participation interest in the RAL. Software revenues consist mainly of tax preparation software and other personal productivity software. Sales of software are recognized when the product is sold to the end user.

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

ADVERTISING EXPENSE >>> Advertising costs are expensed the first time the advertisement is run. Total advertising costs recorded in fiscal year 2005, 2004 and 2003 totaled $195.4 million, $188.3 million and $150.8 million, respectively.

FOREIGN CURRENCY TRANSLATION >>> Assets and liabilities of foreign subsidiaries are translated into U.S. dollars at exchange rates prevailing at the end of the year. Translation adjustments are recorded as a separate component of other comprehensive income in stockholders' equity. Revenue and expense transactions are translated at the average of exchange rates in effect during the period.

COMPREHENSIVE INCOME >>> Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income," establishes standards for reporting and displaying comprehensive income and its components in stockholders' equity. Our comprehensive income is comprised of net income, foreign currency translation adjustments and the change in net unrealized gains or losses on available-for-sale marketable securities. Included in stockholders' equity at April 30, 2005 and 2004, the net unrealized holding gain on available-for-sale securities was $71.6 million and $78.0 million, respectively, and the foreign currency translation adjustment was $(2.8) million and $(11.8) million, respectively. The net unrealized holding gain on available-for-sale securities relates primarily to residual interests in securitizations.

STOCK-BASED COMPENSATION PLANS >>> Effective May 1, 2003, we adopted the fair value recognition provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"), under the prospective transition method as described in Statement of Financial Accounting Standards No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure" ("SFAS 148"). We recognize stock-based compensation expense for the issuance of stock options, restricted shares and our ESPP on a straight-line basis over the vesting period. Had compensation cost for all stock-based compensation plan awards been determined in accordance with the fair value accounting method prescribed under SFAS 123, our net income and earnings per share would have been as follows:

(in 000s, except per share amounts)

Year Ended April 30,	**2005**	Restated 2004	Restated 2003
Net income	**$ 635,857**	$ 709,249	$ 477,615
Add: Stock-based compensation expense included in reported net income, net of taxes	**28,819**	18,029	1,223
Deduct: Total stock-based compensation expense determined under fair value method for all awards, net of taxes	**(39,544)**	(30,662)	(21,025)
Pro forma net income	**$ 625,132**	$ 696,616	$ 457,813
Basic earnings per share:			
As presented	**$ 1.92**	$ 2.00	$ 1.33
Pro forma	**1.89**	1.97	1.27
Diluted earnings per share:			
As presented	**$ 1.88**	$ 1.96	$ 1.30
Pro forma	**1.86**	1.93	1.25

DERIVATIVE ACTIVITIES >>> We record derivative instruments as assets or liabilities, measured at fair value. The recognition of gains or losses resulting from changes in the values of those derivative instruments is based on the use of each derivative instrument and whether it qualifies for hedge accounting.

We use financial instruments to mitigate interest rate risk and loan commitments related to mortgage loans which will be held for sale. We use forward loan sale commitments, interest rate swaps and interest rate caps throughout the year to manage our interest rate risk. We do not enter into derivative transactions for speculative or trading purposes. None of our derivative

instruments qualify for hedge accounting treatment as of April 30, 2005 and 2004.

DISCLOSURE REGARDING CERTAIN FINANCIAL INSTRUMENTS >>> The carrying values reported in the balance sheet for cash equivalents, receivables, accounts payable, accrued liabilities and the current portion of long-term debt approximate fair market value due to the relative short-term nature of the respective instruments. Residual interests and beneficial interests in Trusts are recorded at estimated fair value as discussed above. See note 6 for the fair value of MSRs and note 10 for fair value of long-term debt.

NEW ACCOUNTING STANDARDS >>> In December 2004, Statement of Financial Accounting Standards No. 123 (revised 2004), "Share-Based Payment," ("SFAS 123R") was issued. SFAS 123R requires all entities to recognize the cost of employee services received in exchange for awards of equity instruments based on the grant-date fair value of those awards. Compensation expense must be recognized for the unvested portions of all awards outstanding as of the date of adoption. The provisions of this standard were delayed by the SEC and will be effective as of the beginning of our fiscal year 2007. We are currently evaluating what effect the adoption of SFAS 123R will have on our consolidated financial statements.

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

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

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

(in 000s, except per share amounts)

	As Presented	Pro Forma
Net income	$ 477,615	$ 475,969
Earnings per share:		
Basic	$ 1.33	$ 1.32
Diluted	1.30	1.29

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

Provisions in the first exposure draft, as well as tentative decisions reached by the FASB during its deliberations, may require us to consolidate our current QSPEs (the Trusts) established in our Mortgage Services segment. As of April 30, 2005, the Trusts had both assets and liabilities of $6.7 billion. The provisions of the exposure draft are subject to FASB due process and are subject to change. We will continue to monitor the status of the exposure draft, and consider changes, if any, to current structures as a result of the proposed rules.

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

NOTE 2: RESTATEMENT OF PREVIOUSLY ISSUED FINANCIAL STATEMENTS

On June 7, 2005, management and the Audit Committee of the Board of Directors determined that restatement of our previously issued consolidated financial statements, including financial statements for the nine months ended January 31, 2005 and for the fiscal years ended April 30, 2004 and 2003 and all related interim periods, was appropriate as a result of the errors noted below.

The restatements did not have any impact on our previously reported service revenues or on our compliance with any financial covenant under our lines of credit or other debt instruments.

The restatement is a result of the following items. All amounts listed are pretax, unless otherwise noted.

- An error in calculating the gain on sale of residual interests in fiscal year 2003, resulting in an overstatement in gain on sales of mortgage assets for that year of $37.6 million. This error was corrected by deferring a portion of the gain on sale of residual interests as of the transaction date in fiscal year

2003 and recognizing revenue from the sale as interest income from accretion of residual interests in subsequent periods. Interest income from accretion increased $18.4 million and $1.2 million in fiscal years 2004 and 2003, respectively. This correction also decreased impairments of residual interests $4.6 million and decreased comprehensive income $14.2 million in fiscal year 2004.

- An error in the calculation of an incentive compensation accrual at our Mortgage Services segment as of April 30, 2004. This error resulted in an understatement of compensation expense in fiscal year 2004 of $12.1 million.
- An error in accounting for leased properties related to rent holidays and mandatory rent escalation in our Tax Services, Mortgage Services and Investment Services segments. We historically recognized rent expense on a cash basis. We determined that the lease term should have commenced on the date we took possession of the leased space and the expense calculated on a straight-line basis over the lease term. Rent expense was understated in fiscal years 2004 and 2003 by $1.3 million and $3.3 million, respectively. The cumulative overstatement of retained earnings prior to fiscal year 2003 arising from this error was $4.9 million.
- An error from the capitalization of certain branch office costs at our Investment Services segment, which should have been expensed as incurred. This error resulted in an understatement of occupancy expenses and an overstatement of depreciation expense and capital expenditures of a net understatement of operating expenses of $3.5 million in fiscal year 2004 and a net $2.1 million in fiscal year 2003, which is included in selling, general and administrative expenses. The cumulative overstatement of retained earnings prior to fiscal year 2003 arising from this error was $0.2 million.
- Errors related to accounting for acquisitions at our Business Services and Investment Services segments, the largest of which was the acquisition of OLDE in fiscal year 2000. Deferred taxes were not provided on the dates of acquisition for the book/tax basis differences for certain intangible assets. Additionally, an incorrect life has been used to amortize customer relationships for OLDE since the date of acquisition. As a result of these errors, goodwill was understated by $34.0 million at April 30, 2004 and intangible assets were overstated by $32.4 million. Additionally, deferred tax liabilities were understated by $55.7 million at April 30, 2004. Amortization of customer relationships was understated by $7.3 million in fiscal years 2004 and 2003, which is included in selling, general and administrative expenses. Our provision for income taxes was overstated by $15.2 million and $13.4 million in fiscal years 2004 and 2003, respectively, related to this error.

  The cumulative understatement of retained earnings prior to fiscal year 2003 arising from this error was $14.3 million.

  Upon determining the understatement of goodwill and the resulting change in the carrying values of the affected reporting units, we revisited each of the periods in which goodwill impairment testing was performed. This resulted in additional nondeductible impairment charges of $84.8 million related to the acquisition of OLDE and $1.7 million related to a reporting unit within the Business Services segment in fiscal year 2003.
- Restatement adjustments pertaining to income taxes relate primarily to purchase accounting restatement adjustments described above.

Notes 4, 5, 6, 7, 8, 11, 15, 16, 17, 20, 21 and 22 have been restated to reflect the above described adjustments.

The following is a summary of the impact of the restatement on our consolidated statements of income and comprehensive income for the fiscal years ended April 30, 2004 and 2003:

(in 000s, except per share amounts)

Year Ended April 30,	2004			2003		
	As Previously Reported[1]	Adjustments	Restated	As Previously Reported[1]	Adjustments	Restated
Gains on sales of mortgage assets, net	$ 913,699	$ 4,598	$ 918,297	$ 864,701	$ (37,574)	$ 827,127
Interest income	211,359	18,436	229,795	193,889	1,179	195,068
Total revenues	4,224,846	23,034	4,247,880	3,767,521	(36,395)	3,731,126
Cost of service revenues	1,787,089	7,412	1,794,501	1,623,601	2,336	1,625,937
Cost of other revenues	375,713	4,652	380,365	295,975	4,774	300,749
Impairment of goodwill	–	–	–	35,777	86,474	122,251
Selling, general and administrative	836,523	12,152	848,675	755,203	5,661	760,864
Total operating expenses	2,999,325	24,216	3,023,541	2,710,556	99,245	2,809,801
Operating income	1,225,521	(1,182)	1,224,339	1,056,965	(135,640)	921,325
Income before taxes	1,164,157	(1,182)	1,162,975	987,077	(131,513)	855,564
Income taxes	459,901	(12,534)	447,367	407,013	(29,064)	377,949
Net income	697,897	11,352	709,249	580,064	(102,449)	477,615
Basic earnings per share	$ 1.97	$ 0.03	$ 2.00	$ 1.61	$ (.28)	$ 1.33
Diluted earnings per share	1.93	0.03	1.96	1.58	(.28)	1.30
Reclassification adjustment for gains included in income	$ (95,150)	$(14,235)	$ (109,385)	$ (139,566)	$ 22,493	$ (117,073)
Comprehensive income	718,988	(2,883)	716,105	572,798	(79,956)	492,842

[1] Amounts presented ''as previously reported'' have been reclassified to conform with current year presentation. See discussion of reclassifications in note 1.

The following is a summary of the impact of the restatement on our consolidated balance sheet as of April 30, 2004:

(in 000s)

April 30,	2004		
	As Previously Reported[1]	Adjustments	Restated
Intangible assets, net	$ 325,829	$(32,352)	$ 293,477
Goodwill, net	959,418	34,049	993,467
Property and equipment, net	279,220	(5,917)	273,303
Other assets	308,714	(68,333)	240,381
Total assets	5,295,468	(62,736)	5,232,732
Accrued salaries, wages and payroll taxes	268,747	11,620	280,367
Accrued income taxes	405,668	8,200	413,868
Other noncurrent liabilities	382,168	(12,399)	369,769
Total liabilities	3,398,459	14,458	3,412,917
Accumulated other comprehensive income	57,953	8,258	66,211
Retained earnings	2,781,368	(85,452)	2,695,916
Total stockholders' equity	1,897,009	(77,194)	1,819,815
Total liabilities and stockholders' equity	5,295,468	(62,736)	5,232,732

[1] Amounts presented ''as previously reported'' have been reclassified to conform with current year presentation. See discussion of reclassifications in note 1.

The following is a summary of the impact of the restatement on our consolidated statements of cash flows for fiscal years ended April 30, 2004 and 2003:

(in 000s)

Year Ended April 30,	2004			2003		
	As Previously Reported[1]	Adjustments	Restated	As Previously Reported[1]	Adjustments	Restated
Net income	$ 697,897	$11,352	$709,249	$580,064	$(102,449)	$477,615
Depreciation and amortization	172,038	7,093	179,131	161,821	7,271	169,092
Provision for deferred taxes on income	11,459	(12,445)	(986)	10,574	(40,518)	(29,944)
Accretion of residual interests in securitizations	(168,030)	(18,436)	(186,466)	(145,165)	(1,178)	(146,343)
Impairment of residual interests in securitizations	30,661	(4,598)	26,063	54,111	–	54,111
Realized gain on sale of previously securitized residual interests	(40,689)	–	(40,689)	(130,881)	37,574	(93,307)
Impairment of goodwill	–	–	–	35,777	86,474	122,251
Accounts payable, accrued expenses and deposits	(105,737)	1,174	(104,563)	57,658	2,796	60,454
Accrued salaries, wages and payroll taxes	58,468	12,053	70,521	(42,772)	(139)	(42,911)
Accrued income taxes	93,710	60	93,770	99,715	12,107	111,822
Net cash provided by operating activities	856,210	(3,747)	852,463	691,926	(2,191)	689,735
Purchases of property and equipment, net	(127,573)	3,747	(123,826)	(150,897)	2,191	(148,706)
Net cash provided by (used in) investing activities	(131,133)	3,747	(127,386)	125,338	2,191	127,529

[1] Amounts presented ''as previously reported'' have been reclassified to conform with current year presentation. See discussion of reclassifications in note 1.

The restatement of our consolidated statement of stockholders' equity resulted in an increase of $5.6 million to retained earnings as of April 30, 2002.

NOTE 3: BUSINESS COMBINATIONS AND DISPOSALS

Significant acquisitions during fiscal years 2005, 2004 and 2003 are as follows. Results for each acquisition are included since the date of acquisition.

(in 000s)

Business	Asset Acquired	Estimated Life	Asset Value at Acquisition
Fiscal year 2005 >>>			
Non-accounting firm Business Services acquisitions	Property and equipment		**$ 2,497**
	Goodwill		**9,666**
	Customer relationships	10 years	**7,730**
	Noncompete agreements	15 years	**100**
	Weighted average life	10 years	**$ 19,993**
Fiscal year 2004 >>>			
Former major franchise territories	Property and equipment		$ 2,697
	Goodwill		205,313
	Customer relationships	10 years	18,167
	Noncompete agreements	3 years	17,069
	Weighted average life	7 years	$ 243,246
Accounting firms	Goodwill		$ 3,923
	Customer relationships	10 years	1,794
	Noncompete agreements	15 years	747
	Weighted average life	11 years	$ 6,464
Fiscal year 2003 >>>			
Accounting firms	Goodwill		$ 2,404
	Customer relationships	10 years	2,242
	Noncompete agreements	15 years	728
	Weighted average life	11 years	$ 5,374

During fiscal year 2005, our Business Services segment acquired six businesses. Cash payments related to these acquisitions totaled $19.5 million, with additional cash payments of $0.1 million over the next five years. Goodwill recognized in these transactions is included in the Business Services segment and all but $3.8 million is deductible for tax purposes.

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

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

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

During fiscal years 2005, 2004 and 2003, we made other acquisitions which were accounted for as purchases with cash payments totaling $14.4 million, $7.9 million and $3.0 million, respectively. Their operations, which are not material, are included in the consolidated income statements since the date of acquisition.

NOTE 4: EARNINGS PER SHARE

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

(in 000s, except per share amounts)

Year ended April 30,	2005	Restated 2004	Restated 2003
Net income before change in accounting	**$ 635,857**	$ 715,608	$ 477,615
Basic weighted average common shares	**331,612**	354,152	359,276
Dilutive potential shares from stock options and restricted stock	**6,012**	7,450	8,878
Convertible preferred stock	**1**	1	1
Dilutive weighted average common shares	**337,625**	361,603	368,155
Earnings per share:			
Basic	**$ 1.92**	$ 2.02	$ 1.33
Diluted	**1.88**	1.98	1.30

Diluted earnings per share excludes the impact of common shares issuable upon the lapse of certain restrictions or the exercise of options to purchase 1.2 million, 4.8 million, and 5.2 million shares of stock for 2005, 2004 and 2003, respectively, because the options' exercise prices were greater than the average market price of the common shares and therefore, the effect would be antidilutive.

NOTE 5: MARKETABLE SECURITIES AVAILABLE-FOR-SALE

The amortized cost and market value of marketable securities classified as available-for-sale at April 30, 2005 and 2004 are summarized below:

(in 000s)

	2005				2004 (Restated)			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses[1]	Market Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses[1]	Market Value
Municipal bonds	**$ 9,797**	**$ 172**	**$ (1)**	**$ 9,968**	$ 8,846	$ 27	$ (78)	$ 8,795
Common stock	**4,250**	**308**	**(129)**	**4,429**	4,661	450	(82)	5,029
Residual interests	**90,525**	**115,411**	**–**	**205,936**	85,100	125,873	–	210,973
	$ 104,572	**$ 115,891**	**$ (130)**	**$ 220,333**	$ 98,607	$ 126,350	$ (160)	$ 224,797

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

We monitor our available-for-sale investment portfolio for impairment and consider many factors in determining whether the impairment is deemed to be other-than-temporary. These factors include, but are not limited to, the length of time the security has had a market value less than the cost basis, the severity of the loss, our intent and ability to hold the security for a period of time sufficient for a recovery in value, recent events specific to the issuer or industry, external credit ratings and recent downgrades in such ratings.

Proceeds from the sales of available-for-sale securities were $26.2 million, $68.8 million and $156.6 million during fiscal years 2005, 2004 and 2003, respectively. Gross realized gains on those sales during fiscal years 2005, 2004 and 2003 were $15.8 million, $41.8 million and $93.9 million, respectively; gross realized losses were $0.3 million, $0.1 million and $0.7 million, respectively.

Contractual maturities of available-for-sale debt securities at April 30, 2005 occur at varying dates over the next five to ten years. Because expected maturities differ from contractual maturities due to the issuers' rights to prepay certain obligations

or the seller's rights to call certain obligations, the first call date, put date or auction date for municipal bonds and notes is considered the contractual maturity date.

NOTE 6: MORTGAGE BANKING ACTIVITIES

We originate mortgage loans and sell most non-prime loans the same day the loans are funded to Trusts. These Trusts meet the criteria of QSPEs and are therefore not consolidated. The sale is recorded in accordance with Statement of Financial Accounting Standards No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" ("SFAS 140"). The Trusts purchase the loans from us using five warehouse facilities we arrange. As a result of the whole loan sales to the Trusts, we remove the mortgage loans from our balance sheet and record the gain on the sale, cash and a beneficial interest in Trusts, which represents the ultimate expected outcome from the disposition of the loans. The beneficial interest in Trusts was $215.4 million and $153.8 million at April 30, 2005 and 2004, respectively.

The Trusts, as directed by their third-party beneficial interest holders, either sell the loans directly to third-party investors or back to us to pool the loans for securitization. The decision to complete a whole loan sale or a securitization is dependent on market conditions. If the Trusts choose to sell the mortgage loans, we receive cash for our beneficial interest in Trusts. In a securitization transaction, the Trusts transfer the loans to one of our consolidated subsidiaries, and we transfer our beneficial interest in Trusts and the loans to a securitization trust. The securitization trust meets the definition of a QSPE and is therefore not consolidated. The securitization trust issues bonds, which are supported by the cash flows from the pooled loans, to third-party investors. We retain an interest in the loans in the form of a residual interest and usually assume the first risk of loss for credit losses in the loan pool. As the cash flows of the underlying loans and market conditions change, the value of our residual interest may also change, resulting in either additional unrealized gains or impairment of the value of the residual interests. These residual interests are classified as trading securities. We held no trading residual interests as of April 30, 2005 and 2004, as all trading residuals had been securitized.

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

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

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

(in 000s)

April 30,	**2005**	Restated 2004
Balance, beginning of year	**$ 210,973**	$ 264,337
Additions (resulting from NIM transactions)	**16,914**	9,007
Cash received	**(136,045)**	(193,606)
Cash received on sales of residual interests	**(16,485)**	(53,391)
Accretion	**137,610**	184,253
Impairments of fair value	**(12,235)**	(26,063)
Other	**–**	(6,203)
Change in unrealized holding gains arising during the period	**5,204**	32,639
Balance, end of year	**$ 205,936**	$ 210,973

We sold $31.0 billion and $23.2 billion of mortgage loans in whole loan sales to the Trusts and other buyers during the years ended April 30, 2005 and 2004, respectively. Gains totaling $772.1 million and $915.6 million were recorded on these sales, respectively.

Residual interests initially valued at $115.7 million and $328.0 million were securitized in NIM transactions during the years ended April 30, 2005 and 2004, respectively. Net cash proceeds of $98.7 million and $310.4 million were received from the NIM transactions for the years ended April 30, 2005 and 2004, respectively. Total net additions to residual interests for the years ended April 30, 2005 and 2004 were $16.9 million and $9.0 million, respectively.

Cash flows from the residual interests of $136.0 million and $193.6 million were received from the securitization trusts for the years ended April 30, 2005 and 2004, respectively. An additional $16.5 million and $53.4 million was received during fiscal years 2005 and 2004, respectively, as a result of the sale of previously securitized residuals, as discussed below. Cash received on the residual interests is included in investing activities on the consolidated statements of cash flows.

During fiscal year 2005, we completed sales of previously securitized residual interests and recorded gains of $15.4 million. We received cash proceeds of $16.5 million from the transactions and retained a $21.5 million residual interest. These sales accelerate cash flows from the residual interests, effectively realizing previously recorded unrealized gains included in other comprehensive income.

During fiscal year 2004, we completed sales of previously securitized residual interests and recorded gains of $40.7 million. We received cash proceeds of $53.4 million from the transaction and retained a residual interest of $1.5 million.

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

Aggregate net unrealized gains on residual interests, which had not yet been accreted into income, totaled $115.4 million and $125.9 million at April 30, 2005 and 2004, respectively. These unrealized gains are recorded net of deferred taxes in other comprehensive income, and may be recognized in income in future periods either through accretion or upon further securitization of the related residual interest.

Included in prepaid expenses and other current assets on our consolidated balance sheets as of April 30, 2005 and 2004, is $231.0 million and $212.3 million, respectively, in default advances, escrow advances and principal and interest advances related to the servicing of non-prime loans.

Activity related to mortgage servicing rights consists of the following:

(in 000s)

April 30,	**2005**	2004
Balance, beginning of year	**$ 113,821**	$ 99,265
Additions	**137,510**	84,274
Amortization	**(84,191)**	(69,718)
Impairments of fair value	**(526)**	–
Balance, end of year	**$ 166,614**	$ 113,821

Estimated amortization of MSRs for fiscal years 2006, 2007, 2008, 2009 and 2010 is $89.7 million, $49.8 million, $20.0 million, $5.8 million and $1.3 million, respectively. The carrying value of MSRs approximates fair value at April 30, 2005 and 2004.

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

	2005	2004	2003
Estimated credit losses	**2.72%**	3.63%	3.60%
Discount rate	**25.00%**	16.25%	13.03%
Variable returns to third-party beneficial interest holders	**LIBOR forward curve at valuation date**		

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

April 30,	**2005**	2004
Estimated credit losses – residual interests	**3.03%**	4.16%
Discount rate – residual interests	**21.01%**	19.09%
Discount rate – MSRs	**12.80%**	12.80%
Variable returns to third-party beneficial interest holders	**LIBOR forward curve at valuation date**	

We originate both adjustable and fixed rate mortgage loans. A key assumption used to estimate the cash flows and values of the residual interests is average annualized prepayment speeds. Prepayment speeds include voluntary prepayments, involuntary prepayments and scheduled principal payments. Prepayment rate assumptions are as follows:

	Prior to Penalty Expiration	Months Outstanding Without Prepayment Penalty	
		Zero – 3	Remaining Life
Adjustable rate mortgage loans:			
With prepayment penalties	30%	70%	44%
Without prepayment penalties	36%	53%	40%
Fixed rate mortgage loans:			
With prepayment penalties	29%	46%	42%

For fixed rate mortgages without prepayment penalties, we use an average prepayment rate of 35% over the life of the loans. Prepayment rate is projected based on actual paydown including voluntary, involuntary and scheduled principal payments.

Expected static pool credit losses are as follows:

	Mortgage Loans Securitized in				
	2005	2004	2003	2002	Prior
As of:					
April 30, 2005	**2.83%**	**2.30%**	**2.08%**	**2.53%**	**4.52%**
April 30, 2004	–	3.92%	4.35%	3.58%	4.46%

Static pool credit losses are calculated by summing the actual and projected future credit losses and dividing them by the original balance of each pool of assets.

At April 30, 2005, the sensitivities of the current fair value of the residual interests and MSRs to 10% and 20% adverse changes in the above key assumptions are presented in the following

table. 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.

(in 000s)

	Residential Mortgage Loans		
	NIM Residuals	Beneficial interest in Trusts	MSRs
Carrying amount/fair value of residuals	**$ 205,936**	**$ 215,367**	**$ 166,614**
Weighted average life (in years)	**1.3**	**2.3**	**1.2**
$ impact on fair value:			
Prepayments (including defaults):			
Adverse 10%	**$ (2,458)**	**$ (12,950)**	**$ (23,801)**
Adverse 20%	**8,293**	**(20,572)**	**(40,525)**
Credit losses:			
Adverse 10%	**$ (32,731)**	**$ (6,962)**	**Not applicable**
Adverse 20%	**(64,368)**	**(13,917)**	**Not applicable**
Discount rate:			
Adverse 10%	**$ (5,158)**	**$ (5,492)**	**$ (2,175)**
Adverse 20%	**(10,023)**	**(10,730)**	**(4,301)**
Variable interest rates:			
Adverse 10%	**$ (9,991)**	**$ (36,552)**	**Not applicable**
Adverse 20%	**(20,700)**	**(73,646)**	**Not applicable**

Mortgage loans which have been securitized at April 30, 2005 and 2004, past due sixty days or more and the related net credit losses are presented below:

(in 000s)

	Total Principal Amount of Loans Outstanding		Principal Amount of Loans 60 Days or More Past Due		Net Credit Losses (net of recoveries)	
	April 30,		April 30,		Year Ended April 30,	
	2005	2004	**2005**	2004	**2005**	2004
Residual mortgage loans	**$ 10,300,805**	$ 15,732,953	**$ 1,128,376**	$ 1,286,069	**$ 132,015**	$ 159,253
Warehouse	**6,742,387**	3,244,141	**–**	–	**–**	–
Total loans	**$ 17,043,192**	$ 18,977,094	**$ 1,128,376**	$ 1,286,069	**$ 132,015**	$ 159,253

NOTE 7: GOODWILL AND INTANGIBLE ASSETS

Changes in the carrying amount of goodwill by segment for the year ended April 30, 2005, are as follows:

(in 000s)

	Restated 2004	Additions	Other	**2005**
Tax Services	$ 350,044	$ 10,175	$ 562	**$ 360,781**
Mortgage Services	152,467	–	–	**152,467**
Business Services	317,002	11,513	230	**328,745**
Investment Services	173,954	–	–	**173,954**
	$ 993,467	$ 21,688	$ 792	**$ 1,015,947**

Goodwill and other indefinite life intangible assets were tested for impairment in the fourth quarter of fiscal year 2005. An independent valuation firm was engaged to assist in the test for selected reporting units. No impairment existed at any of our reporting units during fiscal year 2005 or 2004. In light of unsettled market conditions and the severe decline of comparable business valuations in the investment industry, we engaged an independent valuation firm in fiscal year 2003 to perform the goodwill impairment test on the Investment Services segment in accordance with SFAS 142. Based on this valuation, a goodwill impairment charge of $108.8 million was recorded during fiscal year 2003. Also during 2003, our annual impairment test resulted in an impairment of $13.5 million for a reporting unit within the Business Services segment. No other impairments were identified.

The goodwill and intangible assets previously included in Corporate as of April 30, 2004 have been reclassified to the Tax Services segment to more appropriately reflect our segment reporting.

The components of intangible assets are as follows:

(in 000s)

April 30,	**2005**			2004 (Restated)		
	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Tax Services:						
Customer relationships	**$ 23,717**	**$ (7,207)**	**$ 16,510**	$ 19,011	$ (3,377)	$ 15,634
Noncompete agreements	**17,677**	**(11,608)**	**6,069**	17,364	(5,724)	11,640
Business Services:						
Customer relationships	**130,585**	**(68,433)**	**62,152**	121,229	(56,313)	64,916
Noncompete agreements	**27,796**	**(11,274)**	**16,522**	27,424	(8,670)	18,754
Trade name – amortizing	**1,450**	**(995)**	**455**	1,450	(926)	524
Trade name – non-amortizing	**55,637**	**(4,868)**	**50,769**	55,637	(4,868)	50,769
Investment Services:						
Customer relationships	**293,000**	**(198,385)**	**94,615**	293,000	(161,760)	131,240
	$ 549,862	**$ (302,770)**	**$ 247,092**	$ 535,115	$ (241,638)	$ 293,477

Amortization of intangible assets for the years ended April 30, 2005, 2004 and 2003 was $61.4 million, $61.5 million and $51.8 million, respectively. Estimated amortization of intangible assets for fiscal years 2006, 2007, 2008, 2009 and 2010 is $60.6 million, $51.6 million, $34.4 million, $11.7 million and $9.8 million, respectively.

NOTE 8: PROPERTY AND EQUIPMENT

The components of property and equipment are as follows:

(in 000s)

April 30,	**2005**	Restated 2004
Land	**$ 23,716**	$ 29,925
Buildings	**67,031**	71,923
Computers and other equipment	**568,986**	498,373
Capitalized software	**153,794**	137,784
Leasehold improvements	**175,048**	114,537
	988,575	852,542
Less: Accumulated depreciation and amortization	**658,425**	579,239
	$ 330,150	$ 273,303

Depreciation and amortization expense for 2005, 2004 and 2003 was $122.5 million, $117.6 million and $117.3 million, respectively. Included in depreciation and amortization expense is amortization of capitalized software of $23.6 million, $28.2 million and $29.9 million, respectively.

As of April 30, 2005 and 2004, we have property and equipment under capital lease with a cost of $16.8 million and $14.1 million, respectively, and accumulated depreciation of $4.2 million and $2.5 million, respectively. We have an agreement to lease real estate and buildings under a noncancelable capital lease for the next 16 years with an option to purchase after three years.

NOTE 9: DERIVATIVE INSTRUMENTS

A summary of our derivative instruments as of April 30, 2005 is as follows:

(in 000s)

	Asset (Liability) Balance at April 30,		Gain (Loss) in the Year Ended April 30,		
	2005	2004	**2005**	2004	2003
Interest rate swaps	**$ (1,325)**	$ –	**$ 47,192**	$ (2,703)	$ (5,194)
Interest rate caps	**12,458**	–	**(106)**	–	–
Rate-lock equivalents	**801**	(1,386)	**2,187**	(13,917)	6,158
Prime short sales	**(805)**	2,080	**(2,420)**	4,663	(5,105)
	$ 11,129	$ 694	**$ 46,853**	$ (11,957)	$ (4,141)

We use interest rate swaps and forward loan sale commitments to reduce interest rate risk associated with non-prime loans. We generally enter into interest rate swap arrangements related to existing loan applications with rate-lock commitments and, beginning at the end of our second quarter, for rate-lock commitments we expect to make in the next 30 days. Interest rate swaps represent an agreement to exchange interest rate payments, effectively converting our fixed financing costs into a floating rate. These contracts increase in value as rates rise and decrease in value as rates fall.

We enter into interest rate caps to mitigate interest rate risk associated with mortgage loans that will be securitized and residual interests that are classified as trading securities because they will be sold in a subsequent NIM transaction. The caps enhance the marketability of the securitization and NIM transactions. An interest rate cap represents a right to receive cash if interest rates rise above a contractual strike rate, its value therefore increases as interest rates rise. The interest rate used in our interest rate caps is based on LIBOR.

We enter into forward loan commitments to sell our non-prime mortgage loans to manage interest rate risk. Forward loan sale commitments for non-prime loans are not considered derivative instruments and are therefore not recorded in our financial statements. The notional value and the contract value of the forward commitments at April 30, 2005 were $8.7 billion and $8.9 billion, respectively. Most of our forward commitments give us the option to under- or over-deliver by five to ten percent.

We, in the normal course of business, enter into commitments with our customers to fund both non-prime and prime mortgage loans for specified periods of time at "locked-in" interest rates. These derivative instruments represent commitments to fund loans ("rate-lock equivalents"). The fair value of non-prime loan commitments is calculated using a binomial option model. We adopted SEC Staff Accounting Bulletin No. 105, "Application of Accounting Principles to Loan Commitments," as of March 31, 2004. Upon adoption, we no longer record an asset for non-prime commitments to fund loans. The fair value of prime loan commitments is calculated based on the current market pricing of short sales of FNMA, FHLMC and GNMA mortgage-backed securities and the coupon rates of the eligible loans.

We sell short FNMA, FHLMC and GNMA mortgage-backed securities to reduce our risk related to our commitments to fund fixed-rate prime loans. The position on certain or all of the fixed-rate mortgage loans is closed approximately 10-15 days prior to standard Public Securities Association ("PSA") settlement dates.

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

None of our derivative instruments qualify for hedge accounting treatment as of April 30, 2005 and 2004.

NOTE 10: LONG-TERM DEBT

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

(in 000s)

April 30,	2005	2004
Senior Notes, 8½%, due April 2007	**$ 498,825**	$ 498,225
Senior Notes, 5.125%, due October 2014	**397,766**	–
Business Services acquisition obligations, due from May 2005 to January 2008	**38,022**	60,768
Capital lease obligations	**13,550**	12,512
Other obligations	**455**	–
Senior Notes, 6¾%, due November 2004	**–**	249,975
	948,618	821,480
Less: Current portion	**25,545**	275,669
	$ 923,073	$ 545,811

On October 26, 2004, we issued $400.0 million of 5.125% Senior Notes under a shelf registration statement. The Senior Notes are due October 30, 2014, and are not redeemable by the bondholders prior to maturity. The net proceeds of this transaction were used to repay the $250.0 million in 6¾% Senior Notes. The remaining proceeds were used for working capital, capital expenditures, repayment of other debt and other general corporate purposes.

On April 13, 2000, we issued $500.0 million of 8½% Senior Notes under a shelf registration statement. The Senior Notes are due April 15, 2007, and are not redeemable prior to maturity. The net proceeds of this transaction were used to repay a portion of the short-term borrowings that initially funded the acquisition of OLDE Financial Corporation and Financial Marketing Services, Inc.

On October 21, 1997, we issued $250.0 million of 6¾% Senior Notes under a shelf registration statement. The Senior Notes were due November 1, 2004, and the net proceeds were used to repay short-term borrowings, which initially funded the acquisition of Option One.

We have obligations related to Business Services acquisitions of $38.0 million and $60.8 million at April 30, 2005 and 2004, respectively. The current portion of these amounts is included in the current portion of long-term debt on the consolidated balance sheet. The long-term portions are due from May 2006 to January 2008.

We have a capitalized lease obligation of $13.6 million at April 30, 2005 that is collateralized by land and buildings. The obligation is due in 16 years.

The aggregate payments required to retire long-term debt are $25.5 million, $511.5 million, $1.0 million, $0.5 million, $0.6 million and $409.5 million in 2006, 2007, 2008, 2009, 2010 and beyond, respectively.

Based upon borrowing rates currently available for indebtedness with similar terms, the fair value of long-term debt was approximately $981.8 million and $893.5 million at April 30, 2005 and 2004, respectively.

NOTE 11: OTHER NONCURRENT LIABILITIES

We have deferred compensation plans that permit directors and certain employees to defer portions of their compensation and accrue income on the deferred amounts. Their deferred compensation and our matching amounts have been accrued. Included in other noncurrent liabilities are $115.4 million and $93.4 million at April 30, 2005 and 2004, respectively, reflecting the liability under these plans. We purchase whole-life insurance contracts on certain director and employee participants to recover distributions made or to be made under the plans and record the cash surrender value of the policies in other noncurrent assets.

We have recorded $213.4 million and $178.7 million for obligations to certain government agencies at April 30, 2005 and 2004, respectively.

In connection with our acquisition of the non-attest assets of McGladrey & Pullen, LLP ("M&P") in August 1999, we assumed certain pension liabilities related to M&P's retired partners. We make payments in varying amounts on a monthly basis. Included in other noncurrent liabilities at April 30, 2005 and 2004 are $15.9 million and $17.5 million, respectively, related to this liability.

NOTE 12: STOCKHOLDERS' EQUITY

We are authorized to issue 6.0 million shares of Preferred Stock, without par value. At April 30, 2005, we had 5.6 million shares of authorized but unissued Preferred Stock. Of the unissued shares, 0.6 million shares have been designated as Participating Preferred Stock in connection with our shareholder rights plan.

On March 8, 1995, our Board of Directors authorized the issuance of a series of 0.5 million shares of nonvoting Preferred Stock designated as Convertible Preferred Stock, without par value. In April 1995, 0.4 million shares of Convertible Preferred Stock were issued in connection with an acquisition. In addition,

options to purchase 51,828 shares of Convertible Preferred Stock were issued as a part of the acquisition and 37,399 shares of Convertible Preferred Stock were issued in connection with these options. Each share of Convertible Preferred Stock became convertible on April 5, 1998 into sixteen shares of Common Stock of the Company, subject to adjustment upon certain events. The holders of the Convertible Preferred Stock are not entitled to receive dividends paid in cash, property or securities and, in the event of any dissolution, liquidation or wind-up of the Company, will share ratably with the holders of Common Stock then outstanding in the assets of the Company after any distribution or payments are made to the holders of Participating Preferred Stock or the holders of any other class or series of stock of the Company with preference over the Common Stock.

We grant restricted shares to selected employees under our stock-based compensation plans. Upon the grant of restricted shares, unearned compensation is recorded as an offset to additional paid in capital and is amortized as compensation expense over the restricted period. The balance of unearned compensation related to restricted shares at April 30, 2005 and 2004 was $23.7 million and $15.0 million, respectively.

NOTE 13: STOCK-BASED COMPENSATION AND RETIREMENT BENEFITS

We have four stock-based compensation plans: the 2003 Long-Term Executive Compensation Plan, the 1989 Stock Option Plan for Outside Directors, the 1999 Stock Option Plan for Seasonal Employees, and the 2000 ESPP. The shareholders have approved all of our stock-based compensation plans.

The 2003 Plan replaced the 1993 Long-Term Executive Compensation Plan, effective July 1, 2003. The 1993 Plan terminated at that time, except with respect to outstanding awards thereunder. The shareholders had approved the 1993 Plan in September 1993 to replace the 1984 Long-Term Executive Compensation Plan, which terminated at that time except with respect to outstanding awards thereunder. Under the 2003 and 1989 plans, options may be granted to selected employees and outside directors to purchase our Common Stock for periods not exceeding 10 years at a price that is not less than 100% of fair market value on the date of the grant.

Options granted under the 2003 Plan are exercisable either (1) starting one year after the date of the grant, (2) starting one, two or three years after the date of the grant on a cumulative basis at the annual rate of 33⅓% of the total number of option shares, or (3) starting three years after the date of the grant on a cumulative basis at the rate of 40%, 30%, and 30% over the following three years. In addition, certain option grants have accelerated vesting provisions based on our stock price reaching specified levels.

Options granted under the 1989 Plan for Outside Directors prior to June 30, 2004 are exercisable starting one year after the date of grant on a cumulative basis at an annual rate of 33⅓% of the total number of option shares. Beginning with the grant on June 30, 2004, options granted under this Plan are fully vested and immediately exercisable as of the date of grant.

Under the 2003 and 1989 plans, restricted shares of our common stock may be granted to selected employees. Restricted shares granted vest either (1) starting one or three years after the grant on a cumulative basis at an annual rate of 33⅓% of the total number of shares, or (2) at the end of three years.

The 1999 Stock Option Plan for Seasonal Employees provided for the grant of options on June 30, 2004, 2003 and 2002 at the market price on the date of the grant. The options are exercisable during September through November in each of the two years following the calendar year of the grant, subject to certain conditions.

Changes during the years ended April 30, 2005, 2004 and 2003 under the stock-based compensation plans were as follows:

(shares in 000s)

	2005		2004		2003	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Options outstanding, beginning of year	**28,964**	**$ 17.93**	31,544	$ 16.07	31,820	$ 13.17
Options granted	**7,604**	**23.86**	7,488	22.03	10,728	22.16
Options exercised	**(6,959)**	**18.62**	(7,854)	14.56	(10.196)	12.33
Options expired/cancelled	**(2,506)**	**22.21**	(2,214)	17.26	(808)	17.27
Options outstanding, end of year	**27,103**	**19.02**	28,964	17.93	31,544	16.07
Shares exercisable, end of year	**13,268**	**15.89**	13,336	15.39	13,672	12.61
Restricted shares granted	**980**	**23.89**	1,028	21.97	90	22.32
Restricted shares vested	**352**	**21.66**	144	11.90	126	10.51
Restricted shares outstanding, end of year	**1,554**	**23.20**	1,020	21.96	200	14.58
Shares reserved for future option or restricted stock grants, end of year	**9,889**		9,880		14,563	

A summary of stock options outstanding and exercisable at April 30, 2005 follows:

(shares in 000s)

	Outstanding			Exercisable	
	Number Outstanding at April 30	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable at April 30	Weighted-Average Exercise Price
$ 8.06 – 10.95	**3,480**	**4 years**	**$ 9.08**	**3,426**	**$ 9.08**
$ 11.06 – 13.91	**2,462**	**4 years**	**12.99**	**2,457**	**12.99**
$ 16.05 – 19.98	**5,849**	**7 years**	**16.67**	**3,006**	**16.73**
$ 20.00 – 23.16	**7,966**	**8 years**	**22.23**	**4,161**	**22.02**
$ 23.50 – 29.48	**7,346**	**9 years**	**24.15**	**218**	**27.04**
	27,103			**13,268**	

The ESPP provides the option to purchase shares of our Common Stock through payroll deductions to a majority of the employees of our subsidiaries. The purchase price of the stock is 90% of the lower of either the fair market value of our Common Stock on the first trading day within the Option Period or on the last trading day within the Option Period. The Option Periods are six-month periods beginning January 1 and July 1 each year. During fiscal years 2005 and 2004, 300,976 and 254,492 shares, respectively, were purchased under the ESPP out of a total authorized 6.0 million shares.

During fiscal years 2005 and 2004, we recorded compensation expense under the fair value method using the Black-Scholes option-pricing model on the date of the grant. The pro forma effect on fiscal year 2003 is disclosed in note 1. The following weighted-average assumptions and fair values were used for

stock option grants and ESPP options during the following periods:

Year ended April 30,	2005	2004	2003
Stock option grants – management:			
Risk-free interest rate	**3.86%**	2.64%	3.82%
Expected life	**5 years**	5 years	5 years
Expected volatility	**32.07%**	31.13%	29.30%
Dividend yield	**1.84%**	1.63%	1.59%
Weighted average fair value	**$ 5.87**	$ 5.01	$ 5.12
Stock option grants – seasonal:			
Risk-free interest rate	**2.60%**	1.21%	2.82%
Expected life	**2 years**	2 years	2 years
Expected volatility	**27.65%**	31.97%	28.71%
Dividend yield	**1.85%**	1.66%	1.39%
Weighted average fair value	**$ 3.29**	$ 3.03	$ 2.96
ESPP options:			
Risk-free interest rate	**2.17%**	.97%	1.45%
Expected life	**6 months**	6 months	6 months
Expected volatility	**21.18%**	38.14%	44.38%
Dividend yield	**1.82%**	1.55%	1.60%
Weighted average fair value	**$ 3.84**	$ 4.98	$ 4.51

We have 401(k) defined contribution plans covering all full-time employees following the completion of an eligibility period. Our contributions to these plans are discretionary and totaled $33.4 million, $28.9 million and $20.7 million for fiscal years 2005, 2004 and 2003, respectively.

NOTE 14: SHAREHOLDER RIGHTS PLAN

On July 25, 1998, the rights under a shareholder rights plan, adopted by our Board of Directors on March 25, 1998, became effective. The 1998 plan was adopted to deter coercive or unfair takeover tactics and to prevent a potential acquirer from gaining control of the Company without offering a fair price to all of our stockholders. Under the 1998 plan, a dividend of one right (a "Right") per share was declared and paid on each share of our Common Stock outstanding on July 25, 1998. Rights automatically attach to shares issued after such date.

Under the 1998 plan, a Right becomes exercisable when a person or group of persons acquires beneficial ownership of 15% or more of the outstanding shares of our Common Stock without the prior written approval of our Board of Directors (an "Unapproved Stock Acquisition"), and at the close of business on the tenth business day following the commencement of, or the public announcement of an intent to commence, a tender offer that would result in an Unapproved Stock Acquisition. We may, prior to any Unapproved Stock Acquisition, amend the plan to lower such 15% threshold to not less than the greater of (1) any percentage greater than the largest percentage of beneficial ownership by any person or group of persons then known by the Company, and (2) 10% (in which case the acquisition of such lower percentage of beneficial ownership then constitutes an Unapproved Stock Acquisition and the Rights become exercisable). When exercisable, the registered holder of each Right may purchase from the Company one four-hundredth of a share of a class of our Participating Preferred Stock, without par value, at a price of $53.75, subject to adjustment. The registered holder of each Right then also has the right (the "Subscription Right") to purchase for the exercise price of the Right, in lieu of shares of Participating Preferred Stock, a number of shares of our Common Stock having a market value equal to twice the exercise price of the Right. Following an Unapproved Stock Acquisition, if we are involved in a merger, or 50% or more of our assets or earning power are sold, the registered holder of each Right has the right (the "Merger Right") to purchase for the exercise price of the Right a number of shares of the common stock of the surviving or purchasing company having a market value equal to twice the exercise price of the Right.

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

We may redeem the Rights at a price of $.0003125 per Right at any time prior to the earlier of (1) an Unapproved Stock

Acquisition, or (2) the expiration of the rights. The Rights under the plan will expire on March 25, 2008, unless extended by the Board of Directors. Until a Right is exercised, the holder thereof, as such, will have no rights as a stockholder of the Company, including the right to vote or to receive dividends. The issuance of the Rights alone has no dilutive effect and does not affect reported earnings per share.

NOTE 15: INCOME TAXES

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

(in 000s)

Year Ended April 30,	2005	Restated 2004	Restated 2003
Domestic	**$ 1,013,844**	$ 1,150,450	$ 844,565
Foreign	**3,871**	12,525	10,999
	$ 1,017,715	$ 1,162,975	$ 855,564

Deferred income tax provisions (benefits) reflect the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. The current and deferred components of taxes on income are as follows:

(in 000s)

Year Ended April 30,	2005	Restated 2004	Restated 2003
Current:			
Federal	**$ 384,735**	$ 389,557	$ 361,676
State	**37,192**	54,169	40,964
Foreign	**2,276**	4,627	5,253
	424,203	448,353	407,893
Deferred:			
Federal	**(39,770)**	(895)	(27,610)
State	**(1,666)**	(87)	(1,646)
Foreign	**(909)**	(4)	(688)
	(42,345)	(986)	(29,944)
Total provision for income taxes before change in accounting principle	**381,858**	447,367	377,949
Income tax on cumulative effect of change in accounting principle	**–**	(4,031)	–
Income tax included in comprehensive income	**(3,991)**	(3,387)	(1,387)
Total income taxes	**$ 377,867**	$ 439,949	$ 376,562

The following table reconciles the provision for income taxes at the federal statutory rate of 35% to income tax expense:

(dollars in 000s)

Year Ended April 30,	2005	Restated 2004	Restated 2003
Statutory tax	**$ 356,200**	$ 407,041	$ 299,447
Increases in income taxes resulting from:			
State income taxes, net of Federal income tax benefit	**25,552**	26,652	24,093
Impairment of non-deductible goodwill	**–**	–	42,788
Other	**106**	13,674	11,621
Total income tax expense	**$ 381,858**	$ 447,367	$ 377,949
Effective tax rate	**37.5%**	38.5%	44.2%

The components of deferred taxes are as follows:

(in 000s)

April 30,	2005	Restated 2004
Gross deferred tax assets:		
Accrued expenses	**$ 53,006**	$ 55,643
Allowance for credit losses and related reserves	**35,116**	23,099
Net operating losses	**3,524**	270
Current	**91,646**	79,012
Residual interest income	**131,580**	114,743
Deferred and stock-based compensation	**61,111**	34,724
Property and equipment	**31,379**	6,107
Net operating losses	**20,018**	23,661
Noncurrent	**244,088**	179,235
	335,734	258,247
Valuation allowance	**(20,018)**	(23,661)
	315,716	234,586
Gross deferred tax liabilities:		
Prepaid expenses and revenue deferred for tax	**(13,454)**	(15,040)
Current	**(13,454)**	(15,040)
Mortgage servicing rights	**(61,190)**	(38,005)
Intangible assets	**(100,923)**	(87,728)
Noncurrent	**(162,113)**	(125,733)
Net deferred tax assets	**$ 140,149**	$ 93,813

We believe the net deferred tax asset at April 30, 2005 of $140.1 million is realizable. We have federal taxable income in excess of $2.3 billion and substantial state taxable income in the carry-back period, as well as a history of growth in earnings and prospects for continued earnings growth.

As of April 30, 2005, we had net operating loss carryforwards for tax purposes in various states and foreign countries of approximately $363.6 million. If not used, these carryforwards will expire in varying amounts during fiscal years 2006 through 2024.

We intend to indefinitely reinvest foreign earnings, therefore, a provision has not been made for income taxes which might be payable upon remittance of such earnings. Moreover, due to the availability of foreign income tax credits, management believes the amount of federal income taxes would be immaterial in the event foreign earnings were repatriated.

We have not reevaluated our position with respect to the indefinite reinvestment of foreign earnings to take into account the possible election of the repatriation provisions contained in the American Jobs Creation Act of 2004. The status of our evaluation of these provisions is described in the following section.

AMERICAN JOBS CREATION ACT OF 2004 >>> The American Jobs Creation Act of 2004 (the "Act"), enacted on October 22, 2004, provides for a temporary 85% dividends received deduction on certain foreign earnings repatriated during a one-year period. The deduction would result in an approximate 5.25% federal tax rate on any repatriated earnings. To qualify for the deduction, the earnings must be reinvested in the U.S. pursuant to a domestic reinvestment plan established by a company's chief executive officer and approved by the company's board of directors. Certain other criteria in the Act must be satisfied as well. Our one-year period during which the qualifying distributions can be made ends on December 31, 2005.

We have begun our evaluation of the effects of the Act, but do not expect to be able to complete this evaluation until additional clarifying language on key elements of the Act is issued. As of April 30, 2005, we have not provided deferred taxes on foreign earnings because we intended to indefinitely reinvest such earnings outside the U.S. Whether we will ultimately take advantage of this provision depends on our review of the Act and any additional guidance provided and we are therefore currently uncertain as to the impact, if any, this matter will have on our consolidated financial statements, and are unable to estimate the amount of earnings we may repatriate.

NOTE 16: SUPPLEMENTAL CASH FLOW INFORMATION

We made the following cash payments:

(in 000s)

Year Ended April 30,	**2005**	2004	2003
Income taxes paid	**$ 437,427**	$ 331,635	$ 247,057
Interest paid	**82,535**	84,551	84,094

We characterized the following as non-cash investing activities:

(in 000s)

Year Ended April 30,	**2005**	Restated 2004	Restated 2003
Additions to residual interests	**$ 16,914**	$ 9,007	$ 753
Residual interest mark-to-market	**95,929**	167,065	9,176

NOTE 17: COMMITMENTS, CONTINGENCIES AND RISKS

COMMITMENTS AND CONTINGENCIES >>> At April 30, 2005, we maintained $2.0 billion in back-up credit facilities to support the commercial paper program and for general corporate purposes. The first $1.0 billion unsecured committed line of credit ("CLOC") is subject to annual renewal in August 2005, has a one-year term-out provision with a maturity date in August 2006 and has an annual facility fee of ten basis points per annum. The second $1.0 billion CLOC has a maturity date of August 2009 and has an annual facility fee of twelve basis points per annum. Among other provisions, the credit agreement limits our indebtedness.

We maintain a revolving credit facility in an amount not to exceed $125.0 million (Canadian) in Canada to support a commercial paper program with varying borrowing levels

throughout the year, reaching its peak during February and March for the Canadian tax season.

We offer guarantees under our POM program to tax clients whereby we will assume the cost, subject to certain limits, of additional tax assessments, up to a cumulative per client limit of $5,000, attributable to tax return preparation error for which we are responsible. We defer all revenues and direct costs associated with these guarantees, recognizing these amounts over the term of the guarantee based upon historic and actual payment of claims. The related current asset is included in prepaid expenses and other current assets. The related liability is included in accounts payable, accrued expenses and other on the consolidated balance sheets. The related noncurrent asset and liability are included in other assets and other noncurrent liabilities, respectively, on the consolidated balance sheets. A loss on these POM guarantees would be recognized if the sum of expected costs for services exceeded unearned revenue. The deferred revenue liability increased in fiscal year 2004 by $61.5 million due to the change in accounting principle. The changes in the deferred revenue liability for the fiscal years ended April 30, 2005 and 2004 are as follows:

(in 000s)

April 30,	**2005**	2004
Balance, beginning of year	**$ 123,048**	$ 49,280
Amounts deferred for new guarantees issued	**77,756**	81,803
Revenue recognized on previous deferrals	**(70,042)**	(69,522)
Adjustment resulting from change in accounting principle	**–**	61,487
Balance, end of year	**$ 130,762**	$ 123,048

We have commitments to fund mortgage loans to customers as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses. The commitments to fund loans amounted to $3.9 billion and $2.6 billion at April 30, 2005 and 2004, respectively. External market forces impact the probability of commitments being exercised, and therefore, total commitments outstanding do not necessarily represent future cash requirements.

We have entered into whole loan sale agreements with investors in the normal course of business, which include standard representations and warranties customary to the mortgage banking industry. Violations of these representations and warranties may require us to repurchase loans previously sold. In accordance with these loan sale agreements, we repurchased loans with an outstanding principal balance of $195.3 million and $192.3 million during the fiscal years ended April 30, 2005 and 2004, respectively. A liability has been established related to the potential loss on repurchase of loans previously sold of $41.2 million and $25.2 million at April 30, 2005 and 2004, respectively. Repurchased loans are normally sold in subsequent sale transactions. On an ongoing basis, we monitor the adequacy of this liability, which is established upon the initial sale of the loans, and is included in accounts payable, accrued expenses and deposits in the consolidated balance sheets. In determining the adequacy of the recourse liability, we consider such factors as known problem loans, underlying collateral values, historical loan loss experience, assessment of economic conditions and other appropriate data to identify the risks in the mortgage loans held for sale.

We are responsible for servicing mortgage loans for others of $47.5 billion and subservicing loans of $20.5 billion at April 30, 2005.

We are required, under the terms of our securitizations, to build and/or maintain overcollateralization ("OC") to specified levels, using the excess cash flows received, until specified percentages of the securitized portfolio are attained. We fund the OC account from the proceeds of the sale. Future cash flows to the residual holder are used to amortize the bonds until a specific percentage of either the original or current balance is retained, which is specified in the securitization agreement. The bondholders' recourse to us for credit losses is limited to the excess cash flows received and the amount of OC held by the trust. Upon maturity of the bonds, any remaining amounts in the trust are distributed. The estimated future cash flows to be distributed to us are included as part of the residual valuation and are valued upon distribution from the OC account. As of April 30, 2005 and 2004, $309.5 million and $316.0 million, respectively, was maintained in various OC accounts. These accounts are not assets of the Company and are not reflected in the accompanying consolidated financial statements, other than to the extent potential OC cash flows are included as part of residual interest valuations.

Option One provides a guarantee up to a maximum amount equal to approximately 10% of the aggregate principal balance of mortgage loans held by the Trusts before ultimate disposition of the loans by the Trusts. This guarantee would be called upon in the event adequate proceeds were not available from the sale of the mortgage loans to satisfy the current or ultimate payment obligations of the Trusts. No losses have been sustained on this commitment since its inception. The total principal amount of Trust obligations outstanding as of April 30, 2005 and 2004 was $6.7 billion and $3.2 billion, respectively. The fair value of mortgage loans held by the Trusts as of April 30, 2005 and 2004 was $6.8 billion and $3.3 billion, respectively.

We are required, in the event of non-delivery of customers' securities owed to us by other broker-dealers or by our

customers, to purchase identical securities in the open market. Such purchases could result in losses not reflected in the accompanying consolidated financial statements.

As of April 30, 2005, we had pledged securities totaling $44.6 million, which satisfied margin deposit requirements of $36.7 million.

We monitor the credit standing of brokers and dealers and customers with whom we do business. In addition, we monitor the market value of collateral held and the market value of securities receivable from others, and seek to obtain additional collateral if insufficient protection against loss exists.

We have various contingent purchase price obligations in connection with prior acquisitions. In many cases, contingent payments to be made in connection with these acquisitions are not subject to a stated limit. We estimate the potential payments (undiscounted) total approximately $5.1 million as of April 30, 2005. Our estimate is based on current financial conditions. Should actual results differ materially from the assumptions, the potential payments will differ from the above estimate. Such payments, if and when paid, would be recorded as additional goodwill.

At April 30, 2005, we had a receivable from M&P of $13.8 million. This amount is included in receivables in the consolidated balance sheet. Commitments exist to loan M&P the lower of the value of their accounts receivable, work-in-process and fixed assets or $75.0 million, on a revolving basis through August 30, 2005, subject to certain termination clauses. This revolving facility bears interest at prime rate plus four and one-half percent on the outstanding amount and a commitment fee of one-half percent per annum on the unused portion of the commitment. The loan is fully secured by the accounts receivable, work-in-process and fixed assets of M&P. We anticipate entering into a new revolving facility, which will extend the loan past August 30, 2005.

We have contractual commitments to fund certain franchises requesting Franchise Equity Lines of Credit ("FELCs"). The commitment to fund FELCs as of April 30, 2005 totaled $68.9 million, with a related receivable balance of $39.0 million included in the consolidated balance sheets. The receivable represents the amount drawn on the FELCs as of April 30, 2005.

We are self-insured for certain risks, including certain employee health and benefit, workers' compensation, property and general liability claims, and claims related to our POM program. We issued three standby letters of credit to servicers paying claims related to our POM, errors and omissions and worker's compensation insurance policies. These letters of credit are for amounts not to exceed $10.7 million, $3.0 million and $0.9 million, respectively. At April 30, 2005 there were no balances outstanding on these letters of credit.

HRBFA has letters of credit with a financial institution with a credit limit of $125.0 million. There were no borrowings on these letters of credit during fiscal years 2005 or 2004 and no outstanding balance at April 30, 2005 or 2004.

During fiscal year 2004, we announced plans to construct a new world headquarters facility in downtown Kansas City, Missouri. We are in negotiations to enter into contractual commitments with the City of Kansas City and a general contractor for the construction of the building. As of April 30, 2005, no commitment for the total cost of the building had been negotiated. We expect the remaining expenditure associated with this building to be approximately $143.1 million, which will be paid over the next two fiscal years.

We routinely enter into contracts that include embedded indemnifications that have characteristics similar to guarantees. Other guarantees and indemnifications of the Company and its subsidiaries include obligations to protect counter parties from losses arising from the following: (1) tax, legal and other risks related to the purchase or disposition of businesses; (2) penalties and interest assessed by federal and state taxing authorities in connection with tax returns prepared for clients; (3) indemnification of our directors and officers; and (4) third-party claims relating to various arrangements in the normal course of business. Typically, there is no stated maximum payment related to these indemnifications, and the term of indemnities may vary and in many cases is limited only by the applicable statute of limitations. The likelihood of any claims being asserted against us and the ultimate liability related to any such claims, if any, is difficult to predict. While we cannot provide assurance we will ultimately prevail in the event any such claims are asserted, we believe the fair value of these guarantees and indemnifications is not material as of April 30, 2005.

Substantially all of the operations of our subsidiaries are conducted in leased premises. Most of the operating leases are for periods ranging from 3 years to 5 years, with renewal options and provide for fixed monthly rentals.

Future minimum lease commitments at April 30, 2005 are as follows:

	(in 000s)
2006	**$ 229,768**
2007	**186,111**
2008	**127,153**
2009	**81,608**
2010	**43,337**
2011 and beyond	**40,634**
	$ 708,611

Our rent expense for fiscal years 2005, 2004 and 2003 totaled $275.3 million, $241.2 million and $215.5 million, respectively.

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

RISKS >>> Loans to borrowers who do not meet traditional underwriting criteria, or non-prime borrowers, present a higher level of risk of default than prime loans, because of previous credit problems, higher debt-to-income levels, lack of income documentation or limited credit history. Loans to non-prime borrowers also involve additional liquidity risks, as these loans generally have a more limited secondary market than prime loans. The actual rates of delinquencies, foreclosures and losses on loans to non-prime borrowers could be higher under adverse economic conditions than those currently experienced in the mortgage lending industry in general. While we believe the underwriting procedures and appraisal processes we employ enable us to mitigate certain risks inherent in loans made to these borrowers, no assurance can be given that such procedures or processes will afford adequate protection against such risks.

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

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

NOTE 18: LITIGATION COMMITMENTS AND CONTINGENCIES

We have been involved in a number of class actions and putative class action cases since 1990 regarding our RAL programs. These cases are based on a variety of legal theories and allegations. These theories and allegations include, among others, that (i) we improperly did not disclose license fees we received from RAL lending banks for RALs they make to our clients, (ii) we owe and breached a fiduciary duty to our clients and (iii) the RAL program violates laws such as state credit service organization laws and the federal Racketeer Influenced and Corrupt Organizations ("RICO") Act. Although we have successfully defended many RAL cases, we incurred a pretax expense of $43.5 million in fiscal year 2003 in connection with settling one RAL case. Several of the RAL cases are still pending and the amounts claimed in some of them are very substantial. The ultimate cost of this litigation could be substantial. We intend to continue defending the RAL cases vigorously, although there are no assurances as to their outcome.

As discussed in our Form 8-K dated May 9, 2005, we initially recorded litigation reserves of approximately $38.0 million, after taxes in connection with a proposed settlement of *Lynne A. Carnegie*, *et al. v. Household International*, *Inc.*, *H&R Block*, *Inc.*, *et al.*, (formerly Joel E. Zawikowski, et al. v. Beneficial National Bank, H&R Block, Inc., Block Financial Corporation, et al.). In negotiating the proposed settlement and in determining the amount of consideration we were willing to pay under the proposed settlement, we ascribed significant value to the expanded class of plaintiffs to be covered by the proposed settlement and settlement terms that reduced the likelihood of future claims being made against us regarding our RAL programs. As a result of the May 26, 2005 court ruling to deny the settlement offer, we reversed our legal reserves to amounts representing our assessment of our probable loss.

We are also parties to claims and lawsuits pertaining to our electronic tax return filing services and our POM guarantee program associated with income tax preparation services. These claims and lawsuits include actions by individual plaintiffs, as well as cases in which plaintiffs seek to represent a class of similarly situated customers. The amounts claimed in these claims and lawsuits are substantial in some instances, and the ultimate liability with respect to such litigation and claims is difficult to predict. We intend to continue defending these cases vigorously, although there are not assurances as to their outcome.

In addition to the aforementioned types of cases, we are parties to claims and lawsuits that we consider to be ordinary, routine disputes incidental to our business ("Other Claims and Lawsuits"), including claims and lawsuits concerning the preparation of customers' income tax returns, the fees charged customers for various services, investment products, relationships with franchisees, contract disputes and civil actions, arbitrations, regulatory inquiries and class actions arising out of our business as a broker-dealer and as a servicer of mortgage loans. We believe we have meritorious defenses to each of the Other Claims and Lawsuits and are defending, or intend to defend, them vigorously. Although we cannot provide assurance we will ultimately prevail in each instance, we believe that amounts, if any, required to be paid in the discharge of liabilities or settlements pertaining to Other Claims and Lawsuits will not

have a material adverse effect on our consolidated financial statements. Regardless of outcome, claims and litigation can adversely affect us due to defense costs, diversion of management and publicity related to such matters.

It is our policy to accrue for amounts related to legal matters if it is probable that a liability has been incurred and the amount of the liability can be reasonably estimated. Many of the various legal proceedings are covered in whole, or in part, by insurance. Any receivable for insurance recoveries is recorded separate from the corresponding litigation reserve, and only if recovery is determined to be probable. Receivables for insurance recoveries at April 30, 2005 were immaterial.

NOTE 19: SUBSEQUENT EVENT

On June 8, 2005, our Board of Directors declared a two-for-one stock split of the Company's Common Stock in the form of a 100% stock distribution, effective August 22, 2005, to shareholders of record as of the close of business on August 1, 2005. All share and per share amounts have been adjusted to reflect the retroactive effect of the stock split for all periods presented.

Additionally, we have corrected certain amounts set forth in the 2004 and 2003 condensed consolidating financial information in note 22 which were inadvertently not updated in our original Form 10-K filing.

NOTE 20: SEGMENT INFORMATION

The principal business activity of our operating subsidiaries is providing tax and financial services and products to the general public. Management has determined the reportable segments identified below according to types of services offered and the manner in which operational decisions are made. We operate in the following reportable segments:

TAX SERVICES >>> This segment is primarily engaged in providing tax return preparation and related services and products in the U.S., Canada, Australia and the United Kingdom. Segment revenues include fees earned for tax-related services performed at company-owned tax offices, royalties from franchise offices, sales of tax preparation and other software, fees from online tax preparation, and payments related to RALs. This segment includes the Company's tax preparation software – TaxCut® from H&R Block, and other personal productivity software offered to the general public, and offers online do-it-yourself-tax preparation, online tax advice to the general public through the *www.hrblock.com* website. Revenues of this segment are seasonal in nature.

Our international operations contributed $110.0 million, $97.6 million and $85.1 million in revenues for fiscal years 2005, 2004 and 2003, respectively, and $11.3 million, $11.1 million and $10.5 million of pretax income, respectively. The previously reported International Tax Operations segment has been aggregated with U.S. Tax Operations in the Tax Services segment, and prior year results have been reclassified to reflect this change.

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

BUSINESS SERVICES >>> This segment offers middle-market companies accounting, tax and consulting services, wealth management, retirement resources, payroll services, corporate finance, and financial process outsourcing. This segment offers services through offices located throughout the U.S. Revenues of this segment are seasonal in nature.

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

CORPORATE >>> This segment consists primarily of corporate support departments that provide services to our operating segments. These support departments consist of marketing, information technology, facilities, human resources, executive, legal, finance, government relations and corporate communications. These support department costs are largely allocated to our operating segments. Our captive insurance and franchise financing subsidiaries are also included within this segment, as was our small business initiatives subsidiary in fiscal years 2004 and 2003. The pretax loss from our Corporate segment for fiscal year 2005 includes a non-operating gain of $17.3 million, or $0.03 per diluted share, resulting from legal recoveries.

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

Information concerning the Company's operations by reportable segment as of and for the years ended April 30, 2005, 2004 and 2003 is as follows. See note 2 for details of the restatement of our previously issued financial statements.

(in 000s)

Year Ended April 30,	2005	2004 As Reported	2004 Adjustments	2004 Restated	2003 As Reported	2003 Adjustments	2003 Restated
REVENUES >>>							
Tax Services	**$ 2,358,293**	$ 2,191,177	$ –	$ 2,191,177	$ 1,946,763	$ –	$ 1,946,763
Mortgage Services	**1,246,018**	1,300,675	23,034	1,323,709	1,186,475	(36,395)	1,150,080
Business Services	**573,316**	499,210	–	499,210	434,140	–	434,140
Investment Services	**239,244**	229,470	–	229,470	200,794	–	200,794
Corporate	**3,148**	4,314	–	4,314	(651)	–	(651)
	$ 4,420,019	$ 4,224,846	$ 23,034	$ 4,247,880	$ 3,767,521	$ (36,395)	$ 3,731,126
INCOME (LOSS) BEFORE TAXES >>>							
Tax Services	**$ 663,518**	$ 638,689	$ (196)	$ 638,493	$ 557,542	$ (839)	$ 556,703
Mortgage Services	**496,093**	678,261	10,262	688,523	693,950	(37,626)	656,324
Business Services	**29,871**	19,321	(9)	19,312	(14,118)	(1,915)	(16,033)
Investment Services	**(75,370)**	(64,446)	(11,168)	(75,614)	(128,292)	(91,129)	(219,421)
Corporate	**(96,397)**	(107,668)	(71)	(107,739)	(122,005)	(4)	(122,009)
	$ 1,017,715	$ 1,164,157	$ (1,182)	$ 1,162,975	$ 987,077	$ (131,513)	$ 855,564

(in 000s)

Year Ended April 30,	2005	Restated 2004	Restated 2003
DEPRECIATION AND AMORTIZATION >>>			
Tax Services	**$ 79,079**	$ 76,279	$ 61,487
Mortgage Services	**31,043**	24,428	21,703
Business Services	**23,591**	23,104	23,135
Investment Services	**48,662**	54,378	61,254
Corporate	**1,492**	942	1,513
	$ 183,867	$ 179,131	$ 169,092
Goodwill impairments:			
Business Services	**–**	–	13,459
Investment Services	**–**	–	108,792
	–	–	122,251
	$ 183,867	$ 179,131	$ 291,343
CAPITAL EXPENDITURES >>>			
Tax Services	**$ 74,297**	$ 50,204	$ 65,469
Mortgage Services	**56,613**	28,176	38,204
Business Services	**22,582**	18,003	15,248
Investment Services	**9,503**	10,531	13,371
Corporate	**46,463**	16,912	16,414
	$ 209,458	$ 123,826	$ 148,706
IDENTIFIABLE ASSETS >>>			
Tax Services	**$ 716,981**	$ 666,548	$ 354,617
Mortgage Services	**1,336,920**	1,108,022	1,241,772
Business Services	**701,763**	637,542	677,334
Investment Services	**1,481,127**	1,624,383	1,423,716
Corporate	**1,302,492**	1,196,237	969,063
	$ 5,539,283	$ 5,232,732	$ 4,666,502

NOTE 21: QUARTERLY FINANCIAL DATA (UNAUDITED)

(in 000s, except per share amounts)

Fiscal Year 2005 Quarter Ended	Fiscal Year 2005	April 30, 2005	As Reported January 31, 2005	As Restated January 31, 2005
Revenues	**$ 4,420,019**	**$ 2,355,279**	**$ 1,032,007**	**$ 1,036,236**
Income before taxes	**1,017,715**	**1,003,055**	**151,683**	**153,278**
Income taxes	**381,858**	**376,349**	**59,991**	**57,513**
Net income	**$ 635,857**	**$ 626,706**	**$ 91,692**	**$ 95,765**
Basic earnings per share	**$ 1.92**	**$ 1.89**	**$ .28**	**$ .29**
Diluted earnings per share	**$ 1.88**	**$ 1.86**	**$ .27**	**$ .29**

Fiscal Year 2005 Quarter Ended	As Reported October 31, 2004	As Restated October 31, 2004	As Reported July 31, 2004	As Restated July 31, 2004
Revenues	**$ 539,255**	**$ 541,953**	**$ 482,711**	**$ 486,551**
Income before taxes	**(85,924)**	**(79,818)**	**(72,564)**	**(58,800)**
Income taxes	**(33,725)**	**(29,946)**	**(28,481)**	**(22,058)**
Net income	**$ (52,199)**	**$ (49,872)**	**$ (44,083)**	**$ (36,742)**
Basic earnings per share	**$ (.16)**	**$ (.15)**	**$ (.13)**	**$ (.11)**
Diluted earnings per share	**$ (.16)**	**$ (.15)**	**$ (.13)**	**$ (.11)**

Fiscal Year 2004 Quarter Ended	As Reported Fiscal Year 2004	As Restated Fiscal Year 2004	As Reported April 30, 2004	As Restated April 30, 2004	As Reported January 31, 2004
Revenues	$ 4,224,846	$ 4,247,880	$ 2,197,760	$ 2,200,935	$ 962,830
Income before taxes	1,164,157	1,162,975	952,074	949,469	176,120
Income taxes	459,901	447,367	376,439	365,237	69,394
Net income before change in accounting principle	704,256	715,608	575,635	584,232	106,726
Cumulative effect of change in accounting principle	(6,359)	(6,359)	–	–	–
Net income	$ 697,897	$ 709,249	$ 575,635	$ 584,232	$ 106,726
Basic earnings per share:					
Before change in accounting principle	$ 1.99	$ 2.02	$ 1.65	$ 1.68	$ .30
Net income	1.97	2.00	1.65	1.68	.30
Diluted earnings per share:					
Before change in accounting principle	$ 1.95	$ 1.98	$ 1.62	$ 1.64	$ .29
Net income	1.93	1.96	1.62	1.64	.29

Fiscal Year 2004 Quarter Ended	As Restated January 31, 2004	As Reported October 31, 2003	As Restated October 31, 2003	As Reported July 31, 2003	As Restated July 31, 2003
Revenues	$ 974,520	$ 568,872	$ 573,267	$ 495,384	$ 499,158
Income before taxes	181,406	17,134	15,390	18,829	16,710
Income taxes	69,782	6,758	5,920	7,310	6,428
Net income before change in accounting principle	111,624	10,376	9,470	11,519	10,282
Cumulative effect of change in accounting principle	–	–	–	(6,359)	(6,359)
Net income	$ 111,624	$ 10,376	$ 9,470	$ 5,160	$ 3,923
Basic earnings per share:					
Before change in accounting principle	$ .32	$ .03	$ .03	$ .03	$ .03
Net income	.32	.03	.03	.01	.01
Diluted earnings per share:					
Before change in accounting principle	$ .31	$ .03	$ .03	$ .03	$ .03
Net income	.31	.03	.03	.01	.01

We restated our previously issued consolidated financial statements, including each of the quarters in the nine months ended January 31, 2005 and the fiscal years ended April 30, 2004 and 2003. See note 2 for a detailed description of each restatement issue. The following is a summary of the impact of the restatement on our quarterly consolidated income statements for fiscal years 2005 and 2004:

(in 000s)

Fiscal Year 2005 Quarter Ended	January 31, 2005		October 31, 2004		July 31, 2004	
Impact on	Revenues	Pretax Income	Revenues	Pretax Income	Revenues	Pretax Income
Purchase accounting	**$ –**	**$ (1,831)**	**$ –**	**$ (1,831)**	**$ –**	**$ (1,831)**
Sales of previously securitized residual interests	**4,229**	**4,229**	**2,698**	**2,698**	**3,840**	**3,840**
Lease accounting	**–**	**(1,207)**	**–**	**(414)**	**–**	**(175)**
Incentive compensation accrual	**–**	**–**	**–**	**–**	**–**	**12,070**
Improper capitalization	**–**	**404**	**–**	**5,653**	**–**	**(140)**
	$ 4,229	**$ 1,595**	**$ 2,698**	**$ 6,106**	**$ 3,840**	**$ 13,764**
Income tax (benefit)		**(2,478)**		**3,779**		**6,423**
Net income		**$ 4,073**		**$ 2,327**		**$ 7,341**

Fiscal Year 2004 Quarter Ended	April 30, 2004		January 31, 2004	
Impact on	Revenues	Pretax Income	Revenues	Pretax Income
Purchase accounting	$ –	$ (1,831)	$ –	$ (1,831)
Sales of previously securitized residual interests	3,175	3,175	11,690	11,690
Lease accounting	–	(608)	–	(510)
Incentive compensation accrual	–	(3,018)	–	(3,018)
Improper capitalization	–	(323)	–	(1,045)
	$ 3,175	$ (2,605)	$ 11,690	$ 5,286
Income tax (benefit)		(11,202)		388
Net income		$ 8,597		$ 4,898

Fiscal Year 2004 Quarter Ended	October 31, 2003		July 31, 2003	
Impact on	Revenues	Pretax Income	Revenues	Pretax Income
Purchase accounting	$ –	$ (1,831)	$ –	$ (1,831)
Sales of previously securitized residual interests	4,395	4,395	3,774	3,774
Lease accounting	–	(216)	–	29
Incentive compensation accrual	–	(3,018)	–	(3,018)
Improper capitalization	–	(1,074)	–	(1,073)
	$ 4,395	$ (1,744)	$ 3,774	$ (2,119)
Income tax (benefit)		(838)		(882)
Net income		$ (906)		$ (1,237)

The accumulation of four quarters in fiscal years 2005 and 2004 for earnings per share may not equal the related per share amounts for the years ended April 30, 2005 and 2004 due to the repurchase of treasury shares, the timing of the exercise of stock options, and the antidilutive effect of stock options in the first two quarters.

	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	Fiscal Year
Fiscal year 2005 >>>					
Dividends per share	**$ .11**	**$ .11**	**$ .11**	**$ .10**	**$ .43**
Stock price range:					
High	**$ 27.93**	**$ 25.25**	**$ 25.75**	**$ 25.00**	**$ 27.93**
Low	**23.43**	**22.99**	**22.57**	**22.08**	**22.08**
Fiscal year 2004 >>>					
Dividends per share	$ .10	$ .10	$ .10	$ .09	$ .39
Stock price range:					
High	$ 30.50	$ 30.09	$ 24.18	$ 23.00	$ 30.50
Low	22.25	23.57	20.28	18.15	18.15

NOTE 22: CONDENSED CONSOLIDATING FINANCIAL STATEMENTS

Block Financial Corporation ("BFC") is an indirect, wholly-owned subsidiary of the Company. BFC is the Issuer and H&R Block, Inc. is the Guarantor of the $250.0 million 6¾% Senior Notes issued on October 21, 1997, the $500.0 million 8½% Senior Notes issued on April 13, 2000 and the $400.0 million 5.125% Senior Notes issued on October 26, 2004. Our guarantee is full and unconditional. The following condensed consolidating financial statements present separate information for BFC, the Company and for our other subsidiaries, and should be read in conjunction with our consolidated financial statements.

These condensed consolidating financial statements have been prepared using the equity method of accounting. Income of subsidiaries is, therefore, reflected in our investment in subsidiaries account. The elimination entries eliminate investments in subsidiaries, related stockholder's equity and other intercompany balances and transactions. The income statements and statements of cash flows for the twelve months ended April 30, 2004 and 2003 and balance sheet as of April 30, 2004 have been adjusted to reflect intercompany royalties between BFC and other subsidiaries. These adjustments have no effect on H&R Block, Inc. (Guarantor) or Consolidated H&R Block.

CONDENSED CONSOLIDATING INCOME STATEMENTS

(in 000s)

Year Ended April 30, 2005	H&R Block, Inc. (Guarantor)	BFC (Issuer)	Other Subsidiaries	Eliminations	Consolidated H&R Block
Revenues	**$ –**	**$1,871,703**	**$ 2,565,496**	**$ (17,180)**	**$4,420,019**
Expenses:					
Cost of service revenues	**–**	**404,205**	**1,595,199**	**(184)**	**1,999,220**
Cost of other revenues	**–**	**385,908**	**30,513**	**–**	**416,421**
Selling, general and administrative	**–**	**479,136**	**487,419**	**(14,430)**	**952,125**
	–	**1,269,249**	**2,113,131**	**(14,614)**	**3,367,766**
Operating income	**–**	**602,454**	**452,365**	**(2,566)**	**1,052,253**
Interest expense	**–**	**59,247**	**3,293**	**(173)**	**62,367**
Other income, net	**1,017,715**	**17,277**	**10,552**	**(1,017,715)**	**27,829**
Income before taxes	**1,017,715**	**560,484**	**459,624**	**(1,020,108)**	**1,017,715**
Income taxes	**381,858**	**206,572**	**175,969**	**(382,541)**	**381,858**
Net income	**$ 635,857**	**$ 353,912**	**$ 283,655**	**$ (637,567)**	**$ 635,857**

Year Ended April 30, 2004 (as restated)	H&R Block, Inc. (Guarantor)	BFC (Issuer)	Other Subsidiaries	Eliminations	Consolidated H&R Block
Revenues	$ –	$1,844,772	$2,419,446	$ (16,338)	$4,247,880
Expenses:					
Cost of service revenues	–	372,217	1,422,567	(283)	1,794,501
Cost of other revenues	–	355,197	25,168	–	380,365
Selling, general and administrative	–	371,243	493,114	(15,682)	848,675
	–	1,098,657	1,940,849	(15,965)	3,023,541
Operating income	–	746,115	478,597	(373)	1,224,339
Interest expense	–	66,931	4,287	–	71,218
Other income, net	1,162,975	–	9,854	(1,162,975)	9,854
Income before taxes	1,162,975	679,184	484,164	(1,163,348)	1,162,975
Income taxes	447,367	263,456	184,055	(447,511)	447,367
Income before change in accounting	715,608	415,728	300,109	(715,837)	715,608
Cumulative effect of change in accounting	(6,359)	–	(6,359)	6,359	(6,359)
Net income	$ 709,249	$ 415,728	$ 293,750	$ (709,478)	$ 709,249

(in 000s)

Year Ended April 30, 2003 (as restated)	H&R Block, Inc. (Guarantor)	BFC (Issuer)	Other Subsidiaries	Eliminations	Consolidated H&R Block
Revenues	$ –	$1,551,572	$2,192,510	$ (12,956)	$3,731,126
Expenses:					
Cost of service revenues	–	304,947	1,320,729	261	1,625,937
Cost of other revenues	–	273,210	27,539	–	300,749
Selling, general and administrative	–	423,376	472,936	(13,197)	883,115
	–	1,001,533	1,821,204	(12,936)	2,809,801
Operating income	–	550,039	371,306	(20)	921,325
Interest expense	–	68,173	8,550	–	76,723
Other income, net	855,564	4,127	6,835	(855,564)	10,962
Income before taxes	855,564	485,993	369,591	(855,584)	855,564
Income taxes	377,949	232,577	145,381	(377,958)	377,949
Net income	$477,615	$ 253,416	$ 224,210	$(477,626)	$ 477,615

CONDENSED CONSOLIDATING BALANCE SHEETS

(in 000s)

April 30, 2005	H&R Block, Inc. (Guarantor)	BFC (Issuer)	Other Subsidiaries	Eliminations	Consolidated H&R Block
Cash & cash equivalents	**$ –**	**$ 162,983**	**$ 937,230**	**$ –**	**$1,100,213**
Cash & cash equivalents — restricted	**–**	**488,761**	**28,148**	**–**	**516,909**
Receivables from customers, brokers and dealers, net	**–**	**590,226**	**–**	**–**	**590,226**
Receivables, net	**101**	**199,990**	**218,697**	**–**	**418,788**
Intangible assets and goodwill, net	**–**	**421,036**	**842,003**	**–**	**1,263,039**
Investments in subsidiaries	**4,878,783**	**210**	**449**	**(4,878,783)**	**659**
Other assets	**–**	**1,407,082**	**243,007**	**(640)**	**1,649,449**
Total assets	**$4,878,884**	**$3,270,288**	**$ 2,269,534**	**$(4,879,423)**	**$5,539,283**
Accounts payable to customers, brokers and dealers	**$ –**	**$ 950,684**	**$ –**	**$ –**	**$ 950,684**
Long-term debt	**–**	**896,591**	**26,482**	**–**	**923,073**
Other liabilities	**2**	**532,562**	**1,156,583**	**8**	**1,689,155**
Net intercompany advances	**2,902,511**	**(653,908)**	**(2,250,521)**	**1,918**	**–**
Stockholders' equity	**1,976,371**	**1,544,359**	**3,336,990**	**(4,881,349)**	**1,976,371**
Total liabilities and stockholders' equity	**$4,878,884**	**$3,270,288**	**$ 2,269,534**	**$(4,879,423)**	**$5,539,283**

April 30, 2004 (as restated)	H&R Block, Inc. (Guarantor)	BFC (Issuer)	Other Subsidiaries	Eliminations	Consolidated H&R Block
Cash & cash equivalents	$ –	$ 133,188	$ 939,557	$ –	$1,072,745
Cash & cash equivalents — restricted	–	532,201	13,227	–	545,428
Receivables from customers, brokers and dealers, net	–	625,076	–	–	625,076
Receivables, net	180	150,188	178,851	–	329,219
Intangible assets and goodwill, net	–	457,661	829,283	–	1,286,944
Investments in subsidiaries	4,214,499	205	297	(4,214,499)	502
Other assets	(145)	1,125,578	247,758	(373)	1,372,818
Total assets	$4,214,534	$3,024,097	$ 2,208,973	$(4,214,872)	$5,232,732
Accounts payable to customers, brokers and dealers	$ –	$1,065,793	$ –	$ –	$1,065,793
Long-term debt	–	498,225	47,586	–	545,811
Other liabilities	15,879	580,331	1,204,542	561	1,801,313
Net intercompany advances	2,378,840	(317,187)	(2,061,092)	(561)	–
Stockholders' equity	1,819,815	1,196,935	3,017,937	(4,214,872)	1,819,815
Total liabilities and stockholders' equity	$4,214,534	$3,024,097	$ 2,208,973	$(4,214,872)	$5,232,732

CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS

(in 000s)

Year Ended April 30, 2005	H&R Block, Inc. (Guarantor)	BFC (Issuer)	Other Subsidiaries	Eliminations	Consolidated H&R Block
Net cash provided by operating activities:	**$ 39,134**	**$ 134,608**	**$ 340,051**	**$ –**	**$ 513,793**
Cash flows from investing activities:					
Cash received on residual interests	**–**	**136,045**	**–**	**–**	**136,045**
Purchases of property & equipment, net	**–**	**(66,255)**	**(143,203)**	**–**	**(209,458)**
Payments made for business acquisitions	**–**	**–**	**(37,621)**	**–**	**(37,621)**
Net intercompany advances	**497,774**	**–**	**–**	**(497,774)**	**–**
Other, net	**–**	**33,710**	**18,914**	**–**	**52,624**
Net cash provided by (used in) investing activities	**497,774**	**103,500**	**(161,910)**	**(497,774)**	**(58,410)**
Cash flows from financing activities:					
Repayments of commercial paper	**–**	**(5,191,623)**	**–**	**–**	**(5,191,623)**
Proceeds from issuance of commercial paper	**–**	**5,191,623**	**–**	**–**	**5,191,623**
Repayments of long-term debt	**–**	**(250,000)**	**–**	**–**	**(250,000)**
Proceeds from issuance of long-term debt	**–**	**395,221**	**–**	**–**	**395,221**
Payments on acquisition debt	**–**	**–**	**(25,664)**	**–**	**(25,664)**
Dividends paid	**(142,988)**	**–**	**–**	**–**	**(142,988)**
Acquisition of treasury shares	**(530,022)**	**–**	**–**	**–**	**(530,022)**
Proceeds from issuance of common stock	**136,102**	**–**	**–**	**–**	**136,102**
Net intercompany advances	**–**	**(336,721)**	**(161,053)**	**497,774**	**–**
Other, net	**–**	**(16,813)**	**6,249**	**–**	**(10,564)**
Net cash provided by (used in) financing activities	**(536,908)**	**(208,313)**	**(180,468)**	**497,774**	**(427,915)**
Net increase (decrease) in cash and cash equivalents	**–**	**29,795**	**(2,327)**	**–**	**27,468**
Cash and cash equivalents at beginning of the year	**–**	**133,188**	**939,557**	**–**	**1,072,745**
Cash and cash equivalents at end of the year	**$ –**	**$ 162,983**	**$ 937,230**	**$ –**	**$1,100,213**

(in 000s)

Year Ended April 30, 2004 (as restated)	H&R Block, Inc. (Guarantor)	BFC (Issuer)	Other Subsidiaries	Eliminations	Consolidated H&R Block
Net cash provided by operating activities:	$ 64,782	$ 163,464	$ 624,217	$ –	$ 852,463
Cash flows from investing activities:					
Cash received on residual interests	–	193,606	–	–	193,606
Sales of residual interests in securitizations	–	53,391	–	–	53,391
Purchases of property & equipment, net	–	(35,482)	(88,344)	–	(123,826)
Payments made for business acquisitions	–	–	(280,865)	–	(280,865)
Net intercompany advances	473,521	–	–	(473,521)	–
Other, net	–	12,655	17,653	–	30,308
Net cash provided by (used in) investing activities	473,521	224,170	(351,556)	(473,521)	(127,386)
Cash flows from financing activities:					
Repayments of commercial paper	–	(4,618,853)	–	–	(4,618,853)
Proceeds from issuance of commercial paper	–	4,618,853	–	–	4,618,853
Payments on acquisition debt	–	–	(59,003)	–	(59,003)
Dividends paid	(138,397)	–	–	–	(138,397)
Acquisition of treasury shares	(519,862)	–	–	–	(519,862)
Proceeds from issuance of common stock	119,956	–	–	–	119,956
Net intercompany advances	–	(453,477)	(20,044)	473,521	–
Other, net	–	18,850	12,831	–	31,681
Net cash provided by (used in) financing activities	(538,303)	(434,627)	(66,216)	473,521	(565,625)
Net increase (decrease) in cash and cash equivalents	–	(46,993)	206,445	–	159,452
Cash and cash equivalents at beginning of the year	–	180,181	733,112	–	913,293
Cash and cash equivalents at end of the year	$ –	$ 133,188	$ 939,557	$ –	$ 1,072,745

Year Ended April 30, 2003 (as restated)	H&R Block, Inc. (Guarantor)	BFC (Issuer)	Other Subsidiaries	Eliminations	Consolidated H&R Block
Net cash provided by operating activities	$ 36,560	$ 141,165	$ 512,010	$ –	$ 689,735
Cash flows from investing activities:					
Cash received on residual interests	–	140,795	–	–	140,795
Sales of residual interests in securitizations	–	142,486	–	–	142,486
Purchases of property & equipment, net	–	(35,808)	(112,898)	–	(148,706)
Payments made for business acquisitions	–	–	(26,408)	–	(26,408)
Net intercompany advances	280,583	–	–	(280,583)	—
Other, net	–	(1,480)	20,842	–	19,362
Net cash provided by (used in) investing activities	280,583	245,993	(118,464)	(280,583)	127,529
Cash flows from financing activities:					
Repayments of commercial paper	–	(9,925,516)	–	–	(9,925,516)
Proceeds from issuance of commercial paper	–	9,925,516	–	–	9,925,516
Payments on acquisition debt	–	–	(57,469)	–	(57,469)
Dividends paid	(125,898)	–	–	–	(125,898)
Acquisition of treasury shares	(317,570)	–	–	–	(317,570)
Proceeds from issuance of common stock	126,325	–	–	–	126,325
Net intercompany advances	–	(402,197)	121,614	280,583	–
Other, net	–	(2,739)	167	–	(2,572)
Net cash provided by (used in) financing activities	(317,143)	(404,936)	64,312	280,583	(377,184)
Net increase (decrease) in cash and cash equivalents	–	(17,778)	457,858	–	440,080
Cash and cash equivalents at beginning of the year	–	197,959	275,254	–	473,213
Cash and cash equivalents at end of the year	$ –	$ 180,181	$ 733,112	$ –	$ 913,293

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

(a) EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES >>> We have established disclosure controls and procedures (“Disclosure Controls”) to ensure that information required to be disclosed in the Company’s reports filed under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the U.S. Securities and Exchange Commission’s rules and forms. Disclosure Controls are also designed to ensure that such information is accumulated and communicated to management, including the CEO and CFO, as appropriate to allow timely decisions regarding required disclosure. Our Disclosure Controls were designed to provide reasonable assurance that the controls and procedures would meet their objectives. Our management, including the Chief Executive Officer and Chief Financial Officer, does not expect that our Disclosure Controls will prevent all error and all fraud. A control system, no matter how well designed and operated, can provide only reasonable assurance of achieving the designed control objectives and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusions of two or more people, or by management override of the control. Because of the inherent limitations in a cost-effective, maturing control system, misstatements due to error or fraud may occur and not be detected.

As of the end of the period covered by this Form 10-K, we evaluated the effectiveness of the design and operation of our Disclosure Controls. The controls evaluation was done under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our Disclosure Controls and procedures were not effective as of the end of the period covered by this Annual Report on Form 10-K because of the material weakness in internal control over financial reporting discussed below.

(b) MANAGEMENT’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING >>> Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f). Under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in “Internal Control – Integrated Framework” issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”) as of April 30, 2005.

Based on our assessment, management determined that a material weakness existed in the Company’s internal controls over accounting for income taxes as of April 30, 2005. Specifically, the Company did not maintain sufficient resources in the corporate tax function to accurately identify, evaluate and report, in a timely manner, non-routine and complex transactions. In addition, the Company had not completed the requisite historical analysis and related reconciliations to ensure tax balances were appropriately stated prior to the completion of the Company’s internal control activities. These deficiencies resulted in errors in the Company’s accounting for income taxes. These errors were corrected prior to issuance of the consolidated financial statements as of and for the year ended April 30, 2005. In the aggregate, these deficiencies represent a material weakness in internal control over financial reporting on the basis that there is a more than remote likelihood that a material misstatement of the Company’s annual or interim financial statements will not be prevented or detected by its internal control over financial reporting. Because of this material weakness in internal control over financial reporting, management concluded that, as of April 30, 2005, the Company’s internal control over financial reporting was not effective based on the criteria set forth by COSO.

The Company’s external auditors, KPMG LLP, an independent registered public accounting firm, have issued an audit report on our assessment of the Company’s internal control over financial reporting. This report appears on page 43.

(c) CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING >>> As disclosed most recently in our Quarterly Report on Form 10-Q for the quarter ended January 31, 2005, management had identified an internal control deficiency in our accounting for income taxes. We have dedicated substantial resources to the review of our control processes and procedures specifically related to accounting for income taxes. Based on the results of this review, during the fourth quarter, management completed numerous enhancements to improve our internal controls over financial reporting, specifically those related to accounting for income taxes, including the following actions:

- Implemented a comprehensive set of policies and procedures related to accounting for income taxes.
- Filled senior-level positions in the corporate tax department with experienced individuals focusing on corporate tax, state/local tax, and mortgage accounting.
- Engaged a qualified third-party firm to provide supplementary assistance, REMIC transaction tax expertise, and to assess the tax implications of select historical and future securitizations and the adequacy of the model used by Mortgage Services to track the related book/tax basis adjustments.
- Increased the formality and rigor around the operation of key controls.

Other than the changes outlined above, there were no changes that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

In order to remediate the material weakness identified by management as of April 30, 2005, and continuing thereafter, management completed the requisite historical analysis including creation of the necessary tax basis balance sheets and current and deferred reconciliations required and related internal control testing to ensure propriety of all tax related financial statement account balances as of this Form 10-K filing date. The Company believes it has established appropriate controls and procedures and created the appropriate tax account analysis and support subsequent to April 30, 2005. In addition to the above actions, management will conduct a comprehensive evaluation of the corporate tax function, including resource requirements, during the current fiscal year to identify and implement additional improvements to ensure compliance with the controls and procedures that have been put in place to remediate deficiencies previously identified.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The following information appearing in our definitive proxy statement, to be filed no later than 120 days after April 30, 2005, is incorporated herein by reference:

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

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

Information about our executive officers as of May 15, 2005 is as follows:

Name, age	Current position	Business experience since May 1, 2000
Mark A. Ernst, age 47	Chairman of the Board, President and Chief Executive Officer	Chairman of the Board of Directors since September 2002; Chief Executive Officer since January 2001; President of the Company since September 1999; Chief Operating Officer from September 1998 through December 2000. Mr. Ernst has been a Member of the Board of Directors since September 1999.
William L. Trubeck, age 58	Executive Vice President and Chief Financial Officer	Executive Vice President and Chief Financial Officer since October 2004; Executive Vice President – Western Group of Waste Management, Inc. from April 2003 until October 2004; Chief Administrative Officer of Waste Management, Inc. from May 2002 until April 2003; Chief Financial Officer of Waste Management, Inc., from March 2000 to April 2003.
Jeffery W. Yabuki, age 45	Executive Vice President and Chief Operating Officer	Chief Operating Officer since April 2002; Executive Vice President since October 2000; President, H&R Block Services, Inc. since October 2000; President, H&R Block International from September 1999 until October 2000.
Melanie K. Coleman, age 40	Vice President and Corporate Controller [1]	Vice President and Corporate Controller since October 2002; Assistant Vice President and Assistant Controller at Sprint Corporation ('Sprint''), from December 2000 until October 2002; Executive Assistant to the Chief Financial Officer of Sprint from September 1999 until December 2000.
Robert E. Dubrish, age 53	President and Chief Executive Officer, Option One Mortgage Corporation	President and Chief Executive Officer, Option One Mortgage Corporation, since March 1996.
Timothy C. Gokey, age 43	President, Tax Services	President, Tax Services since June 2004; McKinsey & Company from 1986 until June 2004.
Brad C. Iversen, age 55	Senior Vice President and Chief Marketing Officer	Senior Vice President and Chief Marketing Officer since September 2003; Founded Catamount Marketing in 2002; Executive Vice President and Director of Marketing at Bank One Corporation from 1997 to 2002.
Linda M. McDougall, age 52	Vice President, Communications	Vice President, Communications since July 1999.
Timothy R. Mertz, age 54	Vice President, Corporate Tax	Vice President, Corporate Tax since October 2000; Vice President of Treasury for Payless Cashways, Inc., from September 1998 through September 2000.
Tammy S. Serati, age 46	Senior Vice President, Human Resources	Senior Vice President, Human Resources since December 2002; Vice President, Human Resources Corporate Staffs, for Monsanto Agricultural Company, from May 2000 through November 2002.
Becky S. Shulman, age 40	Vice President and Treasurer	Vice President and Treasurer since September 2001; Chief Investment Officer of U.S. Central Credit Union, from September 1998 until August 2001.
Nicholas J. Spaeth, age 55	Senior Vice President and Chief Legal Officer	Senior Vice President and Chief Legal Officer since February 2004; Senior Vice President, General Counsel and Secretary of Intuit, Inc. from August 2003 to February 2004; Senior Vice President, General Counsel and Secretary, GE Employers Reinsurance Corporation from September 2000 until August 2003; Partner at Cooley Godward LLP from March 1998 until September 2000.
Steven Tait, age 45	President, RSM McGladrey Business Services, Inc.	President, RSM McGladrey Business Services, Inc. since April 2003; Executive Vice President, Sales & Client Operations, Gartner, Inc., from June 2001 through March 2003; Senior Vice President, Sales and Operations at Gartner, Inc. from July 2000 until May 2001; President and Chief Executive Officer of Xerox Connect, a wholly-owned subsidiary of Xerox Corporation, from November 1999 until June 2000.

Name, age	Current position	Business experience since May 1, 2000
Robert A. Weinberger, age 61	Vice President, Government Relations	Vice President, Government Relations, since March 1996.
Marc West, age 45	Senior Vice President and Chief Information Officer	Senior Vice President and Chief Information Officer since September 2004; Senior Vice President and Chief Information Officer of Electronic Arts Inc. from 2000 until September 2004.
Bret G. Wilson, age 46	Vice President and Secretary	Vice President and Secretary since October 2002; Vice President, Corporate Development and Risk Management from October 2000 until October 2002; Vice President, Corporate Planning and Development from September 1999 until October 2000.

[1] As discussed in our Form 8-K dated July 5, 2005, Melanie K. Coleman resigned as Vice President and Corporate Controller of the Company, effective July 31, 2005.

ITEM 11. EXECUTIVE COMPENSATION

The information called for by this item is contained in our definitive proxy statement filed pursuant to Regulation 14A not later than 120 days after April 30, 2005, in the sections entitled "Director Compensation" and "Compensation of Executive Officers," and is incorporated herein by reference.

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

The information called for by this item is contained in our definitive proxy statement filed pursuant to Regulation 14A not later than 120 days after April 30, 2005, in the section titled "Equity Compensation Plans" and in the section titled "Information Regarding Security Holders," and is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information called for by this item is contained in our definitive proxy statement filed pursuant to Regulation 14A no later than 120 days after April 30, 2005, in the section titled "Employee Agreements, Change in Control and Other Arrangements," and is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information called for by this item is contained in our definitive proxy statement filed pursuant to Regulation 14A no later than 120 days after April 30, 2005, in the section titled "Audit Fees," and is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) Documents filed as part of this Report:

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

23.1	Consent of KPMG LLP, Independent Registered Public Accounting Firm.
23.2	Consent of PricewaterhouseCoopers LLP, Independent Registered Public Accounting Firm.
31.1	Certification by Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification by Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification by Chief Executive Officer pursuant to 18 U.S.C. 1350, as adopted by Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification by Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted by Section 906 of the Sarbanes-Oxley Act of 2002.

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

SIGNATURES

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

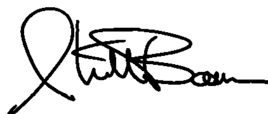
H&R BLOCK, INC.

July 29, 2005

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

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated on July 29, 2005.

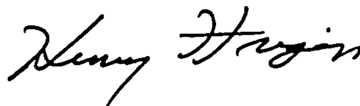
Mark A. Ernst
Chairman of the Board, President,
Chief Executive Officer and Director
(principal executive officer)



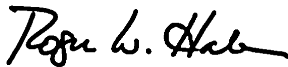
G. Kenneth Baum
Director

Thomas M. Bloch
Director

Donna R. Ecton
Director

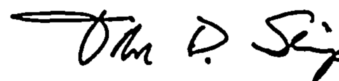


Henry F. Frigon
Director

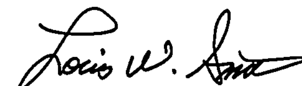


Roger W. Hale
Director

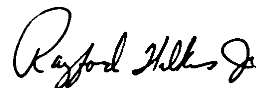
David B. Lewis
Director



Tom D. Seip
Director



Louis W. Smith
Director



Rayford Wilkins, Jr.
Director

William L. Trubeck
Executive Vice President and Chief
Financial Officer (principal accounting
officer)

Melanie K. Coleman
Vice President and Corporate
Controller

EXHIBIT INDEX

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

3.1 Restated Articles of Incorporation of H&R Block, Inc., as amended, filed as Exhibit 3.2 to the Company's quarterly report on Form 10-Q for the quarter ended October 31, 2004, file number 1-6089, are incorporated herein by reference.

3.2 Certificate of Amendment of Articles of Incorporation effective September 30, 2004, filed as Exhibit 3.1 to the Company's quarterly report on Form 10-Q for the quarter ended October 31, 2004, file number 1-6089, is incorporated herein by reference.

3.3 Amended and Restated Bylaws of H&R Block, Inc., as amended and restated as of June 9, 2004, filed as Exhibit 3.3 to the Company's annual report on Form 10-K for the year ended April 30, 2004, file number 1-6089, is incorporated herein by reference.

4.1 Indenture dated as of October 20, 1997, among H&R Block, Inc., Block Financial Corporation and Bankers Trust Company, as Trustee, filed as Exhibit 4(a) to the Company's quarterly report on Form 10-Q for the quarter ended October 31, 1997, file number 1-6089, is incorporated herein by reference.

4.2 First Supplemental Indenture, dated as of April 18, 2000, among H&R Block, Inc., Block Financial Corporation, Bankers Trust Company and the Bank of New York, filed as Exhibit 4(a) to the Company's current report on Form 8-K dated April 13, 2000, file number 1-6089, is incorporated herein by reference.

4.3 Officer's Certificate, dated October 26, 2004, in respect of 5.125% Notes due 2014 of Block Financial Corporation, filed as Exhibit 4.1 to the Company's current report on Form 8-K dated October 21, 2004, file number 1-6089, is incorporated herein by reference.

4.4 Form of 8½% Senior Note due 2007 of Block Financial Corporation, filed as Exhibit 4(b) to the Company's current report on Form 8-K dated April 13, 2000, file number 1-6089, is incorporated herein by reference.

4.5 Form of 5.125% Note due 2014 of Block Financial Corporation, filed as Exhibit 4.2 to the Company's current report on Form 8-K dated October 21, 2004, file number 1-6089, is incorporated herein by reference.

4.6 Copy of Rights Agreement dated March 25, 1998, between H&R Block, Inc. and ChaseMellon Shareholder Services, L.L.C., filed on July 22, 1998 as Exhibit 1 to the Company's Registration Statement on Form 8-A, file number 1-6089, is incorporated herein by reference.

4.7 Form of Certificate of Designation, Preferences and Rights of Participating Preferred Stock of H&R Block, Inc., filed as Exhibit 4(e) to the Company's annual report on Form 10-K for the fiscal year ended April 30, 1995, file number 1-6089, is incorporated by reference.

4.8 Form of Certificate of Amendment of Certificate of Designation, Preferences and Rights of Participating Preferred Stock of H&R Block, Inc., filed as Exhibit 4(j) to the Company's annual report on Form 10-K for the fiscal year ended April 30, 1998, file number 1-6089, is incorporated by reference.

4.9 Form of Certificate of Designation, Preferences and Rights of Delayed Convertible Preferred Stock of H&R Block, Inc., filed as Exhibit 4(f) to the Company's annual report on Form 10-K for the fiscal year ended April 30, 1995, file number 1-6089, is incorporated by reference.

10.1* The Company's 2003 Long-Term Executive Compensation Plan, as amended and restated as of September 10, 2003, filed as Exhibit 10.2 to the Company's quarterly report on Form 10-Q for the quarter ended October 31, 2003, file number 1-6089, is incorporated by reference.

10.2* Form of 2003 Long-Term Executive Compensation Plan Award Agreement, filed as Exhibit 10.2 to the Company's annual report on Form 10-K for the year ended April 30, 2005, file number 1-6089, is incorporated by reference.

10.3* The H&R Block Deferred Compensation Plan for Directors, as Amended and Restated effective July 1, 2002, filed as Exhibit 10.2 to the Company's annual report on Form 10-K for the fiscal year ended April 30, 2002, file number 1-6089, is incorporated by reference.

10.4* The H&R Block Deferred Compensation Plan for Executives, as Amended and Restated July 1, 2002, filed as Exhibit 10.3 to the Company's annual report on Form 10-K for the fiscal year ended April 30, 2002, file number 1-6089, is incorporated by reference.

10.5* Amendment No. 1 to the H&R Block Deferred Compensation Plan for Executives, as Amended and Restated, effective as of March 12, 2003, filed as Exhibit 10.5 to the company's annual report on Form 10-K for the fiscal year ended April 30, 2003, file number 1-6089, is incorporated herein by reference.

10.6* The H&R Block Short-Term Incentive Plan, filed as Exhibit 10.1 to the Company's quarterly report on Form 10-Q for the quarter ended October 31, 2000, file number 1-6089, is incorporated herein by reference.

10.7* Summary of Non-Employee Director Cash Compensation, filed as Exhibit 10.1 to the Company's current report on Form 8-K dated March 16, 2005, file number 1-6089, is incorporated herein by reference.

10.8* The Company's 1989 Stock Option Plan for Outside Directors, as amended and restated as of September 8, 2004, filed as Exhibit 10.5 to the Company's quarterly report on Form 10-Q for the quarter ended October 31, 2004, file number 1-6089, is incorporated herein by reference.

10.9* Form of 1989 Stock Option Plan for Outside Directors Stock Option Agreement, filed as Exhibit 10.9 to the Company's annual report on Form 10-K for the year ended April 30, 2005, file number 1-6089, is incorporated by reference.

10.10* The H&R Block Stock Plan for Non-Employee Directors, as amended August 1, 2001, filed as Exhibit 10.3 to the Company's quarterly report on Form 10-Q for the quarter ended October 31, 2001, file number 1-6089, is incorporated herein by reference.

10.11* The H&R Block, Inc. 2000 Employee Stock Purchase Plan, as amended August 1, 2001, filed as Exhibit 10.2 to the Company's quarterly report on Form 10-Q for the quarter ended October 31, 2001, file number 1-6089, is incorporated herein by reference.

10.12* The H&R Block, Inc. Executive Survivor Plan (as Amended and Restated) filed as Exhibit 10.4 to the Company's quarterly report on Form 10-Q for the quarter ended October 31, 2000, file number 1-6089, is incorporated herein by reference.

10.13* First Amendment to the H&R Block, Inc. Executive Survivor Plan (as Amended and Restated), filed as Exhibit 10.9 to the Company's annual report on Form 10-K for the fiscal year ended April 30, 2002, file number 1-6089, is incorporated by reference.

10.14* Second Amendment to the H&R Block, Inc. Executive Survivor Plan (as Amended and Restated), effective as of March 12, 2003, filed as Exhibit 10.12 to the company's annual report on Form 10-K for the fiscal year ended April 30, 2003, file number 1-6089, is incorporated herein by reference.

10.15* Employment Agreement dated July 16, 1998, between the Company and Mark A. Ernst, filed as Exhibit 10(a) to the Company's quarterly report on Form 10-Q for the quarter ended July 31, 1998, file number 1-6089, is incorporated herein by reference.

10.16* Amendment to Employment Agreement dated June 30, 2000, between HRB Management, Inc. and Mark A. Ernst, filed as Exhibit 10.1 to the Company's quarterly report on Form 10-Q for the quarter ended July 31, 2000, file number 1-6089, is incorporated herein by reference.

10.17* Employment Agreement dated September 7, 1999, between HRB Management, Inc. and Jeffery W. Yabuki, filed as Exhibit 10.4 to the Company's quarterly report on Form 10-Q for the quarter ended January 31, 2000, file number 1-6089, is incorporated herein by reference.

10.18* Employment Agreement dated as of October 4, 2004 between HRB Management, Inc. and William L. Trubeck, filed as Exhibit 10.2 to the Company's current report on Form 8-K/A Amendment No. 1 dated September 9, 2004, file number 1-6089, is incorporated herein by reference.

10.19* Employment Agreement dated as of February 2, 2004, between HRB Management, Inc. and Nicholas J. Spaeth, filed as Exhibit 10.16 to the company's annual report on Form 10-K for the fiscal year ended April 30, 2004, file number 1-6089, is incorporated herein by reference.

10.20* Employment Agreement dated September 2, 2003, between HRB Management, Inc. and Brad C. Iversen, filed as Exhibit 10.1 to the Company's quarterly report on Form 10-Q for the quarter ended January 31, 2004, file number 1-6089, is incorporated herein by reference.

10.21* Employment Agreement between Option One Mortgage Corporation and Robert E. Dubrish, executed on February 9, 2002, filed as Exhibit 10.2 to the Company's quarterly report on Form 10-Q for the quarter ended January 31, 2002, file number 1-6089, is incorporated herein by reference.

10.22* Employment Agreement dated December 2, 2002 between HRB Management, Inc. and Tammy S. Serati, filed as Exhibit 10.4 to the quarterly report on Form 10-Q for the quarter ended January 31, 2003, file number 1-6089, is incorporated herein by reference.

10.23* Employment Agreement dated as of April 1, 2003 between HRB Business Services, Inc. and Steven Tait, filed as Exhibit 10.23 to the annual report on Form 10-K for the fiscal year ended April 30, 2003, file number 1-6089, is incorporated herein by reference.

10.24* Employment Agreement dated as of September 15, 2004 between HRB Management, Inc. and Marc West, filed as Exhibit 10.1 to the quarterly report on Form 10-Q for the quarter ended October 31, 2004, file number 1-6089, is incorporated herein by reference.

10.25* Employment Agreement dated as of June 28, 2004 between H&R Block Services, Inc. and Timothy C. Gokey, filed as Exhibit 10.4 to the quarterly report on Form 10-Q for the quarter ended July 31, 2004, file number 1-6089, is incorporated herein by reference.

10.26* Termination Agreement dated January 7, 2005 between H&R Block, Inc., H&R Block Financial Advisors, Inc. and Brian L. Nygaard, filed as Exhibit 10.1 to the Company's quarterly report on Form 10-Q for the quarter ended January 31, 2005, file number 1-6089, is incorporated herein by reference.

10.27 Second Amended and Restated Refund Anticipation Loan Operations Agreement dated as of June 9, 2003, between H&R Block Services, Inc., Household Tax Masters, Inc. and Beneficial Franchise Company, filed as Exhibit 10.27 to the annual report on Form 10-K for the fiscal year ended April 30, 2003, file number 1-6089, is incorporated herein by reference.

10.28 Fourth Amended and Restated Refund Anticipation Loan Participation Agreement dated as of December 31, 2004, between Block Financial Corporation, HSBC Taxpayer Financial Services, Inc. and Household Tax Masters Acquisition Corporation, filed as Exhibit 10.2 to the quarterly report on Form 10-Q for the quarter ended January 31, 2005, file number 1-6089, is incorporated herein by reference.

10.29 2004 Amendment to Second Amended and Restated Refund Anticipation Loan Operations Agreement dated as of August 20, 2004, by and among H&R Block Services, Inc., Household Tax Masters, Inc., and Beneficial Franchise Company, filed as Exhibit 10.3 to the quarterly report on Form 10-Q for the quarter ended October 31, 2004, file number 1-6089, is incorporated herein by reference.**

10.30 364-Day Credit and Guarantee Agreement dated as of August 11, 2004 among Block Financial Corporation, H&R Block, Inc., Bank of America, N.A., Barclays Bank PLC, HSBC Bank USA, National Association, The Royal Bank of Scotland PLC, JPMorgan Chase Bank, J.P. Morgan Securities, Inc. and other lending parties thereto, filed as Exhibit 10.1 to the quarterly report on Form 10-Q for the quarter ended July 31, 2004, file number 1-6089, is incorporated herein by reference.

10.31 Five-Year Credit and Guarantee Agreement dated as of August 11, 2004 among Block Financial Corporation, H&R Block, Inc., Bank of America, N.A., Barclays Bank PLC, HSBC Bank USA, National Association, The Royal Bank of Scotland PLC, JPMorgan Chase Bank, J.P. Morgan Securities, Inc. and other lending parties thereto, filed as Exhibit 10.2 to the quarterly report on Form 10-Q for the quarter ended July 31, 2004, file number 1-6089, is incorporated herein by reference.

10.32 License Agreement dated as of June 30, 2004 by and between Sears, Roebuck and Co. and H&R Block Services, Inc., filed as Exhibit 10.3 to the quarterly report on Form 10-Q for the quarter ended July 31, 2004, file number 1-6089, is incorporated herein by reference.

10.33 Leasing Operations Supplier Agreement (Products and/or Services) dated as of September 11, 2003 between Wal*Mart Stores, Inc. and H&R Block Services, Inc., filed as Exhibit 10.33 to the Company's annual report on Form 10-K for the year ended April 30, 2005, file number 1-6089, is incorporated by reference.

10.34 Standard Form of Agreement Between Owner and Designer/Builder dated as of May 5, 2003 by and between H&R Block Tax Services, Inc. and J.E. Dunn Construction Company, filed as Exhibit 10.2 to the quarterly report on Form 10-Q for the quarter ended October 31, 2004, file number 1-6089, is incorporated by reference.

10.35 Second Amended and Restated Loan Purchase and Contribution Agreement dated as of November 14, 2003 between Option One Loan Warehouse Corporation and Option One Mortgage Corporation, filed as Exhibit 10.3 to the quarterly report on Form 10-Q for the quarter ended January 31, 2005, file number 1-6089, is incorporated herein by reference.

10.36 Amended and Restated Sales and Servicing Agreement dated November 12, 2004 among Option One Owner Trust 2003-5, Option One Loan Warehouse Corporation, Option One Mortgage Corporation and Wells Fargo Bank, N.A., filed as Exhibit 10.4 to the quarterly report on Form 10-Q for the quarter ended January 31, 2005, file number 1-6089, is incorporated herein by reference.

10.37 Note Purchase Agreement dated November 14, 2003 between Option One Owner Trust 2003-5, Option One Loan Warehouse Corporation and Citigroup Global Markets Realty Corp., filed as Exhibit 10.5 to the quarterly report on Form 10-Q for the quarter ended January 31, 2005, file number 1-6089, is incorporated herein by reference.

10.38 Amendment Number One to the Note Purchase Agreement, dated November 14, 2004, among Option One Owner Trust 2003-5, Option One Loan Warehouse Corporation and Citigroup Global Markets Realty Corp., filed as Exhibit 10.6 to the quarterly report on Form 10-Q for the quarter ended January 31, 2005, file number 1-6089, is incorporated herein by reference.

10.39 Indenture dated as of November 1, 2003 between Option One Owner Trust 2003-5 and Wells Fargo Bank Minnesota, National Association, filed as Exhibit 10.7 to the quarterly report on Form 10-Q for the quarter ended January 31, 2005, file number 1-6089, is incorporated herein by reference.

10.40 Second Amended and Restated Sale and Servicing Agreement dated as of March 8, 2005 among Option One Owner Trust 2001-2, Option One Loan Warehouse Corporation, Option One Mortgage Corporation and Wells Fargo Bank Minnesota, National Association, filed as Exhibit 10.40 to the Company's annual report on Form 10-K for the year ended April 30, 2005, file number 1-6089, is incorporated by reference.

10.41 Amended and Restated Note Purchase Agreement dated as of November 24, 2003, among Option One Owner Trust 2001-2, Option One Loan Warehouse Corporation and Bank of America, N.A., filed as Exhibit 10.11 to the quarterly report on Form 10-Q for the quarter ended January 31, 2005, file number 1-6089, is incorporated herein by reference.

10.42 Amendment Number One to the Amended and Restated Note Purchase Agreement, dated as of December 17, 2004, among Option One Owner Trust 2001-2, Option One Loan Warehouse Corporation and Bank of America, N.A., filed as Exhibit 10.12 to the quarterly report on Form 10-Q for the quarter ended January 31, 2005, file number 1-6089, is incorporated herein by reference.

10.43 Amendment Number Two to the Amended and Restated Note Purchase Agreement, dated as of February 15, 2005, among Option One Owner Trust 2001-2, Option One Loan Warehouse Corporation and Bank of America, N.A., filed as Exhibit 10.12 to the quarterly report on Form 10-Q for the quarter ended January 31, 2005, file number 1-6089, is incorporated herein by reference.

10.44 Amended and Restated Indenture dated as of November 25, 2003 between Option One Owner Trust 2001-2 and Wells Fargo Bank Minnesota, National Association, filed as Exhibit 10.12 to the quarterly report on Form 10-Q for the quarter ended January 31, 2005, file number 1-6089, is incorporated herein by reference.

10.45 Letter Agreement dated as of April 1, 2000 among Option One Mortgage Corporation and Bank of America N.A., filed as Exhibit 10.12 to the quarterly report on Form 10-Q for the quarter ended January 31, 2005, file number 1-6089, is incorporated by reference.

10.46 Amended and Restated Note Purchase Agreement dated as of March 18, 2005 among Option One Owner Trust 2002-3, UBS Warburg Real Estate Securities Inc. and Option One Mortgage Corporation, filed as Exhibit 10.46 to the Company's annual report on Form 10-K for the year ended April 30, 2005, file number 1-6089, is incorporated by reference.

10.47 Amended and Restated Sale and Servicing Agreement dated as of March 18, 2005, among Option One Owner Trust 2002-3, Option One Loan Warehouse Corporation, Option One Mortgage Corporation and Wells Fargo Bank, N.A., filed as Exhibit 10.47 to the Company's annual report on Form 10-K for the year ended April 30, 2005, file number 1-6089, is incorporated by reference.

10.48 Second Amended and Restated Sale and Servicing Agreement dated as of April 29, 2005 among Option One Owner Trust 2001-1A, Option One Loan Warehouse Corporation, Option One Mortgage Corporation and Wells Fargo Bank, N.A., filed as Exhibit 10.48 to the Company's annual report on Form 10-K for the year ended April 30, 2005, file number 1-6089, is incorporated by reference.

10.49 Indenture dated as of April 1, 2001 between Option One Owner Trust 2001-1A and Wells Fargo Bank Minnesota, National Association, filed as Exhibit 10.49 to the Company's annual report on Form 10-K for the year ended April 30, 2005, file number 1-6089, is incorporated by reference.

10.50 Amendment Number Four, dated April 16, 2004, to Indenture between Option One Owner Trust 2001-1A and Wells Fargo Bank Minnesota, National Association, as amended and restated through and including November 25, 2003, filed as Exhibit 10.50 to the Company's annual report on Form 10-K for the year ended April 30, 2005, file number 1-6089, is incorporated by reference.

10.51 Amendment Number Five, dated April 30, 2004, to Indenture between Option One Owner Trust 2001-1A and Wells Fargo Bank Minnesota, National Association, as amended and restated through and including November 25, 2003, filed as Exhibit 10.51 to the Company's annual report on Form 10-K for the year ended April 30, 2005, file number 1-6089, is incorporated by reference.

10.52 Amendment Number Six, dated April 29, 2005, to Indenture between Option One Owner Trust 2001-1A and Wells Fargo Bank Minnesota, National Association, as amended and restated through and including November 25, 2003, filed as Exhibit 10.52 to the Company's annual report on Form 10-K for the year ended April 30, 2005, file number 1-6089, is incorporated by reference.

10.53 Amended and Restated Note Purchase Agreement dated as of April 16, 2004, among Option One Owner Trust 2001-1A, Option One Loan Warehouse Corporation and Greenwich Capital Financial Products, Inc. , filed as Exhibit 10.53 to the Company's annual report on Form 10-K for the year ended April 30, 2005, file number 1-6089, is incorporated by reference.

10.54 Amendment No. 1 to Amended and Restated Note Purchase Agreement dated as of April 29, 2005 among Option One Owner Trust 2001-1A, Greenwich Capital Financial Products and Option One Loan Warehouse Corporation, filed as Exhibit 10.54 to the Company's annual report on Form 10-K for the year ended April 30, 2005, file number 1-6089, is incorporated by reference.

10.55 Second Amended and Restated Sale and Servicing Agreement dated as of April 29, 2005 among Option One Owner Trust 2001-1B, Option One Loan Warehouse Corporation, Option One Mortgage Corporation and Wells Fargo Bank, N.A., filed as Exhibit 10.55 to the Company's annual report on Form 10-K for the year ended April 30, 2005, file number 1-6089, is incorporated by reference.

10.56 Indenture dated as of April 1, 2001 between Option One Owner Trust 2001-1B and Wells Fargo Bank Minnesota, National Association, filed as Exhibit 10.56 to the Company's annual report on Form 10-K for the year ended April 30, 2005, file number 1-6089, is incorporated by reference.

10.57 Amendment Number Five, dated April 16, 2004, to Indenture between Option One Owner Trust 2001-1B and Wells Fargo Bank Minnesota, National Association, as amended and restated through and including November 25, 2003, filed as Exhibit 10.57 to the Company's annual report on Form 10-K for the year ended April 30, 2005, file number 1-6089, is incorporated by reference.

10.58 Amendment Number Six, dated April 30, 2004, to Indenture between Option One Owner Trust 2001-1B and Wells Fargo Bank Minnesota, National Association, as amended and restated through and including November 25, 2003, filed as Exhibit 10.58 to the Company's annual report on Form 10-K for the year ended April 30, 2005, file number 1-6089, is incorporated by reference.

10.59 Amendment Number Six, dated April 29, 2005, to Indenture between Option One Owner Trust 2001-1B and Wells Fargo Bank Minnesota, National Association, as amended and restated through and including November 25, 2003, filed as Exhibit 10.59 to the Company's annual report on Form 10-K for the year ended April 30, 2005, file number 1-6089, is incorporated by reference.

10.60 Amended and Restated Note Purchase Agreement dated as of April 16, 2004, among Option One Owner Trust 2001-1B, Option One Loan Warehouse Corporation and Greenwich Capital Financial Products, Inc., filed as Exhibit 10.60 to the Company's annual report on Form 10-K for the year ended April 30, 2005, file number 1-6089, is incorporated by reference.

10.61 Amendment No. 1 to Amended and Restated Note Purchase Agreement dated as of April 29, 2005 among Option One Owner Trust 2001-B, Steamboat Funding Corporation and Option One Loan Warehouse Corporation, filed as Exhibit 10.61 to the Company's annual report on Form 10-K for the year ended April 30, 2005, file number 1-6089, is incorporated by reference.

10.62 Sale and Servicing Agreement dated as of August 8, 2003 among Option One Owner Trust 2003-4, Option One Loan Warehouse Corporation, Option One Mortgage Corporation and Wells Fargo Bank, National Association, filed as Exhibit 10.62 to the Company's annual report on Form 10-K for the year ended April 30, 2005, file number 1-6089, is incorporated by reference.

10.63 Amendment No. 1 to Sale and Servicing Agreement dated as of August 6, 2004 among Option One Owner Trust 2003-4, Option One Loan Warehouse Corporation, Option One Mortgage Corporation and Wells Fargo Bank, National Association, filed as Exhibit 10.63 to the Company's annual report on Form 10-K for the year ended April 30, 2005, file number 1-6089, is incorporated by reference.

10.64 Amendment No. 2 to Sale and Servicing Agreement dated as of August 24, 2004 among Option One Owner Trust 2003-4, Option One Loan Warehouse Corporation, Option One Mortgage Corporation and Wells Fargo Bank, National Association, filed as Exhibit 10.64 to the Company's annual report on Form 10-K for the year ended April 30, 2005, file number 1-6089, is incorporated by reference.

10.65 Indenture dated as of August 8, 2003 between Option One Owner Trust 2003-4 and Wells Fargo Bank Minnesota, National Association, filed as Exhibit 10.65 to the Company's annual report on Form 10-K for the year ended April 30, 2005, file number 1-6089, is incorporated by reference.

10.66 Note Purchase Agreement dated as of August 8, 2003 among Option One Mortgage Corporation, Option One Loan Warehouse Corporation, Option One Owner Trust 2003-4, Falcon Asset Securitization Corporation, Jupiter Securitization Corporation, Preferred Receivables Funding Corporation, financial institutions thereto and Bank One, NA, filed as Exhibit 10.66 to the Company's annual report on Form 10-K for the year ended April 30, 2005, file number 1-6089, is incorporated by reference.

10.67 Amendment No. 1 to Note Purchase Agreement dated as of August 6, 2004 among Option One Mortgage Corporation, Option One Loan Warehouse Corporation, Option One Owner Trust 2003-4, Falcon Asset Securitization Corporation, Jupiter Securitization Corporation, Preferred Receivables Funding Corporation, financial institutions thereto and Bank One, NA, filed as Exhibit 10.67 to the Company's annual report on Form 10-K for the year ended April 30, 2005, file number 1-6089, is incorporated by reference.

10.68 Amendment No. 2 to Note Purchase Agreement dated as of August 24, 2004 among Option One Mortgage Corporation, Option One Loan Warehouse Corporation, Option One Owner Trust 2003-4, Falcon Asset Securitization Corporation, Jupiter Securitization Corporation, Preferred Receivables Funding Corporation, financial institutions thereto and Bank One, NA, filed as Exhibit 10.68 to the Company's annual report on Form 10-K for the year ended April 30, 2005, file number 1-6089, is incorporated by reference.

10.69 Amendment No. 3 to Note Purchase Agreement dated as of October 29, 2004 among Option One Mortgage Corporation, Option One Loan Warehouse Corporation, Option One Owner Trust 2003-4, Falcon Asset Securitization Corporation, Jupiter Securitization Corporation, Preferred Receivables Funding Corporation, financial institutions thereto and Bank One, NA, filed as Exhibit 10.69 to the Company's annual report on Form 10-K for the year ended April 30, 2005, file number 1-6089, is incorporated by reference.

10.70 Amendment No. 4 to Note Purchase Agreement dated as of November 30, 2004 among Option One Mortgage Corporation, Option One Loan Warehouse Corporation, Option One Owner Trust 2003-4, Falcon Asset Securitization Corporation, Jupiter Securitization Corporation, Preferred Receivables Funding Corporation, financial institutions thereto and Bank One, NA, filed as Exhibit 10.70 to the Company's annual report on Form 10-K for the year ended April 30, 2005, file number 1-6089, is incorporated by reference.

10.71 Amendment No. 5 to Note Purchase Agreement dated January 31, 2005, among Option One Mortgage Corporation, Option One Loan Warehouse Corporation, Option One Owner Trust 2003-4, Falcon Asset Securitization Corporation, Jupiter Securitization Corporation, Preferred Receivables Funding Corporation, financial institutions thereto and Bank One, NA, filed as Exhibit 10.71 to the Company's annual report on Form 10-K for the year ended April 30, 2005, file number 1-6089, is incorporated by reference.

12 Computation of Ratio of Earnings to Fixed Charges for the five years ended April 30, 2005, filed as Exhibit 12 to the Company's annual report on Form 10-K for the year ended April 30, 2005, file number 1-6089, is incorporated by reference.

21 Subsidiaries of the Company, filed as Exhibit 21 to the Company's annual report on Form 10-K for the year ended April 30, 2005, file number 1-6089, is incorporated by reference.

23.1 Consent of KPMG LLP, Independent Registered Public Accounting Firm.

23.2 Consent of PricewaterhouseCoopers LLP, Independent Registered Public Accounting Firm.

31.1 Certification by Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification by Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification by Chief Executive Officer pursuant to 18 U.S.C. 1350, as adopted by Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certification by Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted by Section 906 of the Sarbanes-Oxley Act of 2002.

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* Indicates management contracts, compensatory plans or arrangements.

** Confidential Information has been omitted from this exhibit and filed separately with the Commission pursuant to a confidential treatment request under Rule 24b-2.

Certifications Filed with the Securities and Exchange Commission Pursuant to the Sarbanes-Oxley Act of 2002
The certifications of the Chief Executive Officer and Chief Financial Officer of the company required by Section 302 of the Sarbanes-Oxley Act of 2002 have been filed as exhibits 31.1 and 31.2, respectively, in the company's Form 10-K/A for the fiscal year ended April 30, 2005.

Certification Submitted to the New York Stock Exchange
The certification of the Chief Executive Officer required by the New York Stock Exchange Listing Standards, Section 303A.12(a), relating to the company's compliance with the New York Stock Exchange Corporate Governance Listing Standards, was submitted to the New York Stock Exchange on October 1, 2004.

Certification Submitted to the Pacific Exchange
The certification of the Chief Executive Officer required by the Pacific Exchange Listing Standards, Rule 5.3(m), relating to the company's compliance with the Pacific Exchange Corporate Governance Listing Standards, was submitted to the Pacific Exchange on April 26, 2005.

Celebrating its 50th anniversary in 2005, H&R Block is the world's largest tax services provider, having completed more than 400 million tax returns since 1955. One of the largest retailers in the world, H&R Block has more than 12,000 locations serving taxpayers primarily in the United States, Canada and Australia.

H&R Block's subsidiaries deliver tax services and financial advice, investment and mortgage services, and business accounting and consulting services.

H&R Block Financial Advisors Inc. offers investment services and securities products. With approximately 1,000 financial advisors serving clients at approximately 260 locations, H&R Block Financial Advisors is a member NYSE, SIPC, a registered broker-dealer and investment advisor. H&R Block Inc. is not a registered broker-dealer and is not a registered investment advisor.

H&R Block Mortgage Corp. offers a full range of retail mortgage services. Option One Mortgage Corp. provides mortgage services and offers wholesale mortgages through large financial institutions and a network of approximately 42,000 mortgage broker locations.

RSM McGladrey Business Services Inc. and its subsidiaries serve midsized businesses and their owners with tax, accounting and business consulting services, as well as personal wealth management services.

H&R Block Small Business Resources is a new business currently operating in 14 U.S. cities that serves the tax, financial and business needs of small business owners. H&R Block Small Business Resources is not a licensed CPA firm.

For more information about the company, visit our Online Press Center at www.hrblock.com.

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www.melloninvestor.com

Mellon Investor Services provides a variety of shareholder related services at no charge including: change of name or address; consolidation of accounts; lost stock certificates; and transfer of stock to another person.

ANNUAL MEETING >>>
The annual meeting of shareholders of H&R Block Inc. will be held at the H&R Block City Stage at Union Station, 30 West Pershing Road, Kansas City, Missouri, at 9 a.m. Central Time, Wednesday, September 7, 2005. Upon written request, we will furnish without charge to our shareholders a copy of our 2005 Form 10-K as filed with the Securities and Exchange Commission. Requests should be directed to Investor Relations, 800-869-9220, ext. 2721, or by mail to 4400 Main Street, Kansas City, Missouri 64111.

Client photos and information included in this Annual Report appear courtesy of our clients, who have given their written consent.

H&R BLOCK

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