

H&R BLOCK INC
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SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the Securities
Exchange Act of 1934 (Amendment No.)

Filed by the Registrant ☒
Filed by a Party other than the Registrant ☐

Check the appropriate box:

- ☐ Preliminary Proxy Statement
- ☐ **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- ☒ Definitive Proxy Statement
- ☐ Definitive Additional Materials
- ☐ Soliciting Material Pursuant to §240.14a-12

H&R BLOCK, INC.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- ☒ No fee required.
- ☐ Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

1) Title of each class of securities to which transaction applies:

2) Aggregate number of securities to which transaction applies:

3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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**4400 Main Street
Kansas City, Missouri 64111**

**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
TO BE HELD SEPTEMBER 7, 2006**

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 Thursday, September 7, 2006 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 II directors (nominees are Jerry D. Choate, Henry F. Frigon, Roger W. Hale and Len J. Lauer) to serve until the 2009 annual meeting and until their successors are elected and qualified (See page 3);
2. The approval of an amendment to the 1999 Stock Option Plan for Seasonal Employees to extend the Plan for three years, such that it will terminate, unless further extended, on December 31, 2009 (See page 11);
3. The approval of the material terms of performance goals for performance shares issued pursuant to the 2003 Long-Term Executive Compensation Plan (See page 14);
4. The ratification of the appointment of KPMG LLP as the Company's independent accountants for the fiscal year ending April 30, 2007 (See page 15); and
5. 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, 2006 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 16, 2006

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.

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**H&R BLOCK, INC.
PROXY STATEMENT
FOR THE 2006 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 Thursday, September 7, 2006 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, 2006, 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, 2006 are being made available to shareholders beginning on or about August 16, 2006. 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 four items of business at the annual meeting:

- The election of four Class II directors (nominees are Jerry D. Choate, Henry F. Frigon, Roger W. Hale and Len J. Lauer) to serve until the 2009 annual meeting and until their successors are elected and qualified;
- The approval of an amendment to the 1999 Stock Option Plan for Seasonal Employees to extend the Plan for three years, such that it will terminate, unless further extended, on December 31, 2009;
- The approval of the material terms of performance goals for performance shares issued pursuant to the 2003 Long-Term Executive Compensation Plan; and
- The ratification of KPMG LLP as independent accountants for the fiscal year ending April 30, 2007.

WHO IS ENTITLED TO VOTE?

Shareholders of record as of the close of business on July 5, 2006 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 II nominees named in this proxy standing for election to the Board, FOR the amendment to the 1999 Stock Option Plan for Seasonal Employees, FOR the approval of the material terms of performance goals for performance shares issued pursuant to the 2003 Long-Term Executive Compensation Plan and FOR the ratification of KPMG LLP as our independent accountants.

HOW DO I VOTE?

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

- by toll-free telephone at 1-866-540-5760 and following the instructions on the proxy card;
- by Internet at <http://www.proxyvoting.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.

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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 (Tom D. Seip, Louis W. Smith and Rayford Wilkins, Jr.) will vote your shares FOR items 1, 2, 3 and 4. 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

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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.

CAN I ATTEND THE MEETING?

All shareholders, properly appointed proxy holders, and invited guests of the Company may attend the annual meeting. Shareholders who plan to attend the meeting must present a valid photo identification. If you hold your shares in street name, please also bring proof of your share ownership, such as a broker's statement showing that you owned shares of the Company on the record date of July 5, 2006, or a legal proxy from your broker or nominee (a legal proxy is required if you hold your shares in street name and you plan to vote in person at the annual meeting). Shareholders of record will be verified against an official list available at the registration area. The Company reserves the right to deny admittance to anyone who cannot adequately show proof of share ownership as of the record date.

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?

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As of the record date 324,545,858 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.

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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 1-888-213-0968.

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

This proxy statement and 2006 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 April 24, 2006, the Board fixed the number of directors to constitute the Board of Directors at 11. 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, four 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.

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At the annual meeting of shareholders to be held on September 7, 2006, four Class II directors will be elected to hold office for three years and until their successors are elected and shall have qualified. Jerry D. Choate, Henry F. Frigon, Roger W. Hale and Len J. Lauer have been nominated for election as Class II 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 II 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 II directors, the current Class I directors and the current Class III directors are listed below. Donna R. Ecton, Louis W. Smith and Rayford Wilkins, Jr. serve as Class III directors with terms scheduled to expire at the

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annual meeting of shareholders in 2007. Thomas M. Bloch, Mark A. Ernst, David Baker Lewis and Tom D. Seip serve as Class I directors with terms scheduled to expire at the annual meeting of shareholders in 2008. 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 29 of this proxy statement.

NOMINEES FOR ELECTION AT THIS MEETING TO A TERM EXPIRING IN 2009 (CLASS II DIRECTORS):

Jerry D. Choate

Director since 2006
Age 67

Mr. Choate retired as Chairman and Chief Executive Officer of Allstate Corporation at year-end 1998. Prior to becoming Chairman, Mr. Choate was President and Chief Executive Officer and held numerous other executive positions during his 36 years with Allstate. Mr. Choate also serves on the Board of Directors of Amgen, Valero Energy Corporation and Van Kampen Mutual Funds. Mr. Choate serves on the Audit Committee.

Henry F. Frigon

Director since 1992
Age 71

Mr. Frigon has served as the Vice Chairman of the Board of CARSTAR, Inc., Overland Park, Kansas, since May 2005. Prior to that, Mr. Frigon served as Chairman of the Board of CARSTAR, Inc. from July 1998 until 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., Packaging Corporation of America, 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 63

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 the Board of Directors and a member of the Audit, Compensation and Governance and Nominating Committees.

Len J. Lauer

Director since 2005
Age 49

Mr. Lauer is currently the Chief Operating Officer of Sprint Nextel Corp. He was President from September 2003 until the Sprint-Nextel merger in August 2005. Prior to that, he was President-Sprint PCS from October 2002 until October 2004, and was President-Long Distance (formerly the Global Markets Group) from September 2000 until October 2002. Mr. Lauer also served in several executive positions at Bell Atlantic Corp. from 1992 to 1998. Prior to this, Mr. Lauer spent the first 13 years of his

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business career at IBM in various sales and marketing positions. Mr. Lauer holds a Bachelor of Science degree in Managerial Economics from the University of California, San Diego. Mr. Lauer is also a director of VeriSign, Inc. Mr. Lauer is a member of the Audit Committee of the Board of Directors.

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

Donna R. Ecton

Director since 1993
Age 59

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 63

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. 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, Executive and Governance and Nominating Committees of the Board of Directors.

Rayford Wilkins, Jr.

Director since 2000
Age 54

Mr. Wilkins has served as Group President, AT&T Inc. (formerly 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.

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CONTINUING DIRECTORS WHOSE TERMS EXPIRE IN 2008 (CLASS I DIRECTORS):

Thomas M. Bloch

Director since 2000
Age 52

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 48

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. 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 55

Mr. Lewis is Chairman 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 and Finance Committees of the Board of Directors.

Tom D. Seip

Director since 2001
Age 56

Mr. Seip currently serves as managing partner of Seip Investments LP and the managing member of Way 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 Chairman of the Governance and Nominating Committee of the Board of Directors and is a member of the Compensation Committee.

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 2006 fiscal year, the Board of Directors held 13 meetings and the standing Board committees held 21 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.

The standing committees of the Board include 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 Street, Kansas City, Missouri 64111 (such address to change to One H&R Block Way, Kansas City, Missouri 64105 in September 2006). 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. Ernst, Frigon and Smith, held no meetings during fiscal year 2006. 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. Choate, Frigon, Hale, Lauer, Lewis and Wilkins, held 10 meetings during fiscal year 2006. 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. Choate, Mr. Frigon, Mr. Hale, Mr. Lauer, 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 Board of Directors adopted a revised charter for the Audit Committee in March, 2006, a copy of which is included as Appendix B to this proxy statement. 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 15.

The **Compensation Committee**, whose members are Ms. Ecton (Chairman) and Messrs. Frigon, Hale, Seip and Smith, held five meetings during fiscal year 2006. 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 17.

The **Finance Committee**, whose members are Mr. Frigon (Chairman), Ms. Ecton and Messrs. Bloch, Ernst, Lewis and Wilkins, held three meetings during fiscal year 2006. 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. Seip (Chairman), Ms. Ecton and Messrs. Hale, Smith and Wilkins, held three meetings during fiscal year 2006. 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

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an annual director's fee of \$50,000, meeting fees of \$2,000 for each Board meeting attended, committee chairman fees of \$2,000 for each committee meeting that they chair, and meeting fees of \$1,200 for each committee meeting attended in a capacity other than as chairman. The chairman of the audit committee receives an annual committee chairman's fee of \$7,500, which is payable in cash or shares of the Company's common stock. The presiding director receives an annual presiding director's fee of \$20,000. Mr. Hale, the Company's presiding director, declined to accept such fee through the end of his term in September 2006.

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, as amended, 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 August 22, 2005, each stock option granted to an outside director of the Company pursuant to the Plan is for 8,000 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 1,600,000. The amount of shares of Common Stock to which options may be granted to each outside director of the Company and the maximum number of shares of Common Stock to which options may be granted under the Plan were adjusted to reflect the two-for-one stock split of the Company's Common Stock on August 22, 2005.

Options for 8,000 shares each, with an option price of \$29.175 per share (adjusted to reflect the stock split), were granted to G. Kenneth Baum (retired from the Board in September 2005), Ms. Ecton and Messrs. Bloch, Frigon, Hale, Lewis, Seip, Smith and Wilkins on June 30, 2005. The options are fully vested and immediately exercisable as of the date of grant. All outstanding options expire ten years after the date of grant.

Options for 8,000 shares each, with an option price of \$23.86 per share, were granted to Ms. Ecton and Messrs. Bloch, Choate, Frigon, Hale, Lauer, Lewis, Seip, Smith and Wilkins on June 30, 2006. The options are fully vested and immediately exercisable as of the 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. In addition, the H&R Block Foundation will match gifts by non-employee directors to any 501(c)(3) organization up to an annual aggregate limit of \$5,000 per calendar year.

The Board has adopted 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.

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Following is a summary of director compensation for non-employee directors for fiscal year 2006.

	Fees Earned or Paid in Cash (\$) ⁽¹⁾	Option Awards (#) ⁽²⁾	All Other Compensation (\$) ⁽³⁾
G. Kenneth Baum ⁽⁴⁾	40,200	8,000	5,000
Thomas M. Bloch	79,600	8,000	6,834
Jerry D. Choate ⁽⁵⁾			
Donna R. Ecton	93,200	8,000	1,000
Henry F. Frigon	92,400	8,000	5,000
Roger W. Hale	94,400	8,000	5,000
Len J. Lauer	22,100		
David B. Lewis	89,200	8,000	5,000
Tom D. Seip	84,400	8,000	4,000
Louis W. Smith	110,700	8,000	5,000
Rayford Wilkins, Jr	93,200	8,000	5,000

NOTES:

- (1) This column includes, as applicable, the annual director's fee, meeting fees for each Board and committee meeting attended and committee chairman fees for fiscal year 2006.
- (2) This column includes the number of nonqualified stock options granted to each Director during fiscal year 2006 pursuant to the 1989 Stock Option Plan for Outside Directors.
- (3) This column includes, as applicable, the value of income tax return preparation services at an H&R Block office, the value of the 50% discount on tax preparation services from RSM McGladrey, Inc., the cost of business travel insurance and the H&R Block Foundation matching amount on contributions to 501(c)(3) organizations.
- (4) Mr. Baum retired from the Board in September 2005.
- (5) Mr. Choate was elected to the Board on April 24, 2006. Mr. Choate did not attend any Board meetings on or before April 30, 2006 and was not eligible to receive any portion of the annual director's fee in fiscal year 2006.

CORPORATE GOVERNANCE Our Board of Directors operates under 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, reviews with the Chief Executive Officer the Board's annual Chief Executive Officer performance evaluation and performs other duties as may

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be designated by 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, nine of the Board's 11 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 2006, 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. Choate, Frigon, Hale, Lauer, Lewis, Seip, Smith and Wilkins are independent directors.

Finally, 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.

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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 that 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 (such address to change to One H&R Block Way, Kansas City, Missouri 64105 in September 2006). Submissions should include information regarding a candidate's background, qualifications, experience, and willingness to serve as a director. Based on a 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.

COMMUNICATIONS WITH THE BOARD Shareholders and other interested parties 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 the correspondence to: Corporate Secretary, H&R Block, Inc., 4400 Main Street, Kansas City, Missouri 64111 (such address to change to One H&R Block Way, Kansas City, Missouri 64105 in September 2006). Please indicate on the envelope whether the communication is from a shareholder or other interested party. All such 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 then-current directors attended last year's annual meeting.

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ITEM 2 ON FORM OF PROXY

APPROVAL OF AN AMENDMENT TO THE 1999 STOCK OPTION PLAN FOR SEASONAL EMPLOYEES

INTRODUCTION Since 1969, the Company has offered a stock option program to the seasonal employees of its income tax services business. The Company's Board of Directors adopted the 1999 Stock Option Plan for Seasonal Employees (the Plan, as amended, shall be referred to as the Seasonal Plan) in March 1999, and the shareholders approved the Plan in September 1999.

Currently, stock options may be granted in accordance with the terms of the Seasonal Plan until December 31, 2006, on which date the Plan will terminate except as to stock options then outstanding, which stock options will remain in effect until they have expired according to their terms. The original termination date of the Seasonal Plan was December 31, 2002. At the Company's annual meeting of shareholders held on September 12, 2001, the shareholders approved an amendment to the Seasonal Plan to extend it until December 31, 2004 and at the annual meeting of shareholders held on September 8, 2004, the shareholders approved an amendment to the Seasonal Plan to extend it until December 31, 2006.

The Seasonal Plan currently provides that the aggregate number of shares of Common Stock that may be issued under the Plan may not exceed 46,000,000 shares, provided that such aggregated number shall be adjusted for any stock split, stock dividend, recapitalization or similar transaction. The Seasonal Plan originally provided that the aggregate number of shares of Common Stock that may be issued under the Plan may not exceed 6,000,000 and also provided that such aggregate number would be adjusted for any stock split, stock dividend, recapitalization or similar transaction. In accordance with such provision, the original aggregate number of shares was doubled to 12,000,000 shares on August 1, 2001, as a result of the two-for-one split of the Common Stock effected on that date. At the Company's annual meeting of shareholders held on September 12, 2001, the shareholders approved an amendment to the Seasonal Plan to increase the aggregate number of shares of Common Stock for which options may be granted by 8,000,000 shares (from 12,000,000 to 20,000,000 shares). At the Company's annual meeting of shareholders held on September 8, 2004, the shareholders approved an amendment to increase the aggregate number of shares of Common Stock for which options may be granted by 3,000,000 (from 20,000,000 to 23,000,000 shares). The aggregate number of shares of Common Stock for which options may be granted was subsequently doubled to 46,000,000 shares on August 22, 2005 as a result of the two-for-one split of Common Stock effected on that date.

The Seasonal Plan is intended to reward performance, encourage retention and instill loyalty in the seasonal tax associates who are vital to this segment of the Company's business. The Board believes that a substantial majority of seasonal associates perceive a seasonal stock option plan as a valuable benefit, that such a plan has in fact proven to be a valuable tool in retaining seasonal associates, and that it is important to continue this incentive. The Board believes that it is in the best interests of the Company to adopt the proposed amendment to extend the Seasonal Plan for three years, such that it will terminate, unless further extended, on December 31, 2009.

MATERIAL FEATURES OF THE SEASONAL PLAN The material features of the Seasonal Plan, as amended, are summarized below. The summary is qualified in its entirety by reference to the specific provisions of the Seasonal Plan, as amended, the full text of which is set forth as Appendix C to this proxy statement.

PARTICIPATION IN AND AWARDS UNDER THE SEASONAL PLAN Options to purchase the Company's Common Stock are granted under the Seasonal Plan to Eligible Seasonal Employees of the direct and indirect, majority-owned subsidiaries of H&R Block Services, Inc., an indirect, wholly-owned subsidiary of the Company. Such subsidiaries are collectively referred to herein as Tax Services. Eligible Seasonal Employees are employees of Tax Services hired to perform jobs designated as seasonal jobs for limited periods of time during each year. Such employees must have adhered to the working hours agreed upon during the year. At the peak of the 2006 tax season, the Company employed approximately 109,590 Eligible Seasonal Employees. Officers and directors of H&R Block Services, Inc., Tax Services and the Company may not receive grants pursuant to the Seasonal Plan.

On June 30 of each year that the Seasonal Plan is in effect, each Eligible Seasonal Employee who was employed by Tax Services either on the immediately preceding April 15 (or the next business day if it falls on a Saturday, Sunday or holiday) or for at least 100 working days during the 12-month period preceding such June 30 will receive an option to purchase shares of Common Stock of the Company as follows:

- (1) Each option granted on June 30, 1999 was for one share of Common Stock for each \$100 of compensation earned during the preceding 12 months, provided that such compensation was \$500 or more;
- (2) Each option granted on June 30 of each year that the Seasonal Plan is in effect after 1999 to a participant who

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was granted an option on June 30, 1999, is for one share of Common Stock for each \$100 of compensation earned during the preceding 12 months, provided that such compensation is \$4,000 or more; and

- (3) Each option granted on June 30 of each year that the Seasonal Plan is in effect after 1999 to a participant who was not granted an option on June 30, 1999, is for one share of Common Stock for each \$200 of compensation earned during the preceding 12 months, provided that such compensation is \$4,000 or more.

If the Eligible Seasonal Employee does not earn the specified minimum compensation (\$500 or \$4,000, as the case may be), no option will be awarded. In all cases, the maximum annual grant is an option to purchase 100 shares of Common Stock. The purchase price per share of Common Stock under each stock option is equal to the last reported sales price for the Common Stock on the New York Stock Exchange on the date of the grant. If the date of grant falls on a non-business day, the stock option price will be equal to the last reported sales price on the next preceding business day on which the stock is quoted. Each option is exercisable only between the dates of September 1 through November 30 of either of the two calendar years immediately following the calendar year in which the option is granted, and then only if the optionee is an Eligible Seasonal Employee or a full-time employee of the Company or any of its subsidiaries, and if the compensation earned during the year of exercise is at least 50% of that earned during the year of the grant. An option may be exercised for less than the total number of shares covered thereby and, upon any exercise as to less than all shares covered by an option, the option terminates as to the balance of such shares.

ADMINISTRATION OF THE SEASONAL PLAN The Seasonal Plan is administered by the Compensation Committee of the Company's Board of Directors. The Compensation Committee has the full power and authority to administer the Seasonal Plan, to interpret the provisions of the Seasonal Plan and to adopt rules and regulations for carrying out the Seasonal Plan and written policies for implementing the Seasonal Plan. A majority of the Compensation Committee members constitutes a quorum and the acts of a majority of the members present at any meeting at which a quorum is present, or acts approved in writing by all members of the Committee, are valid acts of the Compensation Committee.

OPTIONS GRANTED OR TO BE GRANTED UNDER THE SEASONAL PLAN The following table reports the options granted on June 30, 2004, June 30, 2005 and June 30, 2006 under the Seasonal Plan (adjusted to reflect the two-for-one split of the Company's Common Stock on August 22, 2005):

Date of Grant	Shares Subject to Options	Number of Optionees	Price
June 30, 2004	5,018,590	40,042	\$ 23.84
June 30, 2005	4,385,358	35,696	\$29.175
June 30, 2006	2,275,656	37,884	\$ 23.86

If shareholders approve the amendment, stock options will automatically be awarded under the Seasonal Plan on June 30, 2007 to Eligible Seasonal Employees in accordance with the criteria set forth above under Participation in and Awards under the Seasonal Plan. It is not possible to state the number of options to be granted to any person or group or the number of shares to be subject to any such options. No options under the Seasonal Plan have been granted or will be granted to any executive officer, director or nominee for director of the Company.

SHARES OF COMMON STOCK ISSUABLE UNDER THE SEASONAL PLAN The aggregate number of shares of Common Stock that may be issued under the Seasonal Plan may not exceed 46,000,000 shares, provided that such aggregate number may be adjusted for any stock split, stock dividend, recapitalization or similar transaction. Shares subject to options that expire or otherwise terminate unexercised may again be optioned by the Company during the life of the Seasonal Plan.

NON-ALIENATION Stock options granted pursuant to the Seasonal Plan are not assignable or transferable by the recipient, and terminate upon the recipient's death.

ANTI-DILUTION PROTECTION In the event a merger, consolidation, reorganization, recapitalization, stock dividend, stock split, or other change in the corporate structure or capitalization affecting the Company's capital stock shall occur, an appropriate adjustment shall be made in (a) the number of shares of stock available for options under the Seasonal Plan and subject to outstanding options, (b) the purchase price per share for each outstanding option, and (c) the method of participation as outlined under Participation in and Awards under the Seasonal Plan, provided that no adjustment shall be made to the methods of participation in the event of a stock dividend or stock split. Any adjustment to the Seasonal Plan shall be made by the Board of Directors and, when so made, shall be effective and binding for all purposes of the Seasonal Plan and of all options then outstanding.

TERMINATION OR AMENDMENT OF THE SEASONAL PLAN The Board of Directors of the Company has the right to amend,

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modify, supplement, suspend or terminate the Seasonal Plan, provided that no amendment, supplement, modification, suspension or termination in any manner affects any stock options theretofore granted thereunder without the consent of the recipient thereof. The Seasonal Plan may not be amended to (i) increase the aggregate number of shares of Common Stock that may be issued (unless such increase is a result of a change in the capital structure of the Company), (ii) materially modify the requirements as to eligibility for participation in the Seasonal Plan, or (iii) materially increase the benefits accruing to participants under the Seasonal Plan. Unless the amendment is approved, the Seasonal Plan will terminate on December 31, 2006, if not terminated earlier by the Board of Directors.

FEDERAL INCOME TAX CONSEQUENCES Federal income tax consequences of the Seasonal Plan and the options granted thereunder are as described below. The following information is not a definitive explanation of the tax consequences of the options. Recipients should consult their own tax advisors with respect to the tax consequences inherent in the ownership and/or exercise of the options, and the ownership and disposition of the underlying securities.

The recipient of a stock option under the Seasonal Plan is not deemed to have received any income at the time the option is granted; however, the recipient will recognize taxable ordinary income in the year any part of the option is exercised in an amount equal to the excess of the fair market value of the shares on the exercise date over the option price of the shares. The Company generally will be entitled to a deduction for purposes of determining its corporate income tax obligations in an amount equal to the total amount of ordinary income recognized by the optionee. Upon disposition of the shares by the seasonal employee, the optionee will recognize long-term or short-term capital gain or loss, as the case may be, equal to the difference between the amount realized on such disposition and the basis for such shares, which basis includes the amount previously recognized by the optionee as ordinary income.

EFFECTIVE DATE AND VOTE REQUIRED The amendment shall become effective immediately upon the date of its approval by the shareholders. If the amendment is not approved, the Seasonal Plan will expire according to its terms on December 31, 2006.

The affirmative vote of the holders of a majority of the shares of Common Stock represented and entitled to vote on this proposal at the annual meeting of shareholders will constitute approval of the amendment to the Seasonal Plan.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE APPROVAL OF THE AMENDMENT TO THE 1999 STOCK OPTION PLAN FOR SEASONAL EMPLOYEES, AND PROXIES SOLICITED BY THE BOARD WILL BE SO VOTED IN THE ABSENCE OF INSTRUCTIONS TO THE CONTRARY.

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ITEM 3 ON FORM OF PROXY

APPROVAL OF MATERIAL TERMS OF PERFORMANCE GOALS FOR PERFORMANCE SHARES ISSUED PURSUANT TO THE 2003 LONG-TERM EXECUTIVE COMPENSATION PLAN

INTRODUCTION As discussed in the Compensation Committee Report on Executive Compensation, the Company will implement in fiscal year 2007 a new performance-based long-term incentive program that provides for performance shares (Performance Shares) to be issued to senior executives pursuant to the 2003 Long-Term Executive Compensation Plan (the 2003 Plan) in lieu of restricted stock. You are being asked to approve the material terms of the performance goals for the Performance Shares. This approval is required under Internal Revenue Service regulations to permit the Company to deduct for federal income tax purposes the payment of Performance Shares to certain executive officers. We are not asking you to approve any amendments to the 2003 Plan.

PURPOSE OF PROPOSAL The Company generally seeks to preserve its ability to claim tax deductions for compensation paid to executives to the greatest extent practicable. Section 162(m) of the Internal Revenue Code limits the Company's federal income tax deduction for compensation paid in a taxable year to an individual who, on the last day of the taxable year, was (i) the chief executive officer or (ii) among the four other highest-compensated executive officers whose compensation is reported in the Summary Compensation Table. Qualified performance-based compensation, which can include compensation from performance shares, is not subject to this deduction limit and is thus fully deductible if certain conditions are met. One of these conditions is shareholder approval of the material terms of the performance goal under which the compensation is paid. As a result, the Company is seeking shareholder approval of the performance goals for Performance Shares so that compensation paid in Performance Shares is deductible for federal income tax purposes to the extent it is qualified performance-based compensation.

DESCRIPTION OF PERFORMANCE SHARES Performance Shares will vest after three years, subject to pre-established performance objectives. An executive will earn the target number of Performance Shares for achievement of targeted performance. An executive may receive up to a maximum of one and one-half times the target number of Performance Shares for superior performance and as few as one half of the target number of Performance Shares for performance below target. Performance Shares reflect a face value equal to the market value of the Company's stock price and are paid out in Company common stock at vesting. Performance Shares do not pay dividends during the vesting period. Instead, any dividend equivalents are carried as fractional Performance Shares until vesting. Performance Shares do not carry voting rights while they are unvested, but will carry voting rights once they are paid out upon achievement of performance objectives.

MATERIAL TERMS OF THE PERFORMANCE GOALS The material terms of the performance goals for Performance Shares consist of (i) the class of executive officers eligible to receive Performance Shares, (ii) the business criteria on which the performance goals are based and (iii) the maximum number of shares of the Company's common stock that can be awarded under the 2003 Plan during any calendar year.

The Company's key senior executives comprise the **class of executive officers eligible** to receive Performance Shares. This group consists generally of the Company's chief executive officer, Company-level and subsidiary-level presidents, executive vice presidents and senior vice presidents, and other executives who are leaders of the Company's key strategic business units.

The **business criteria** on which performance goals are based consist of one or more of the following: (a) the Company's relative total shareholder return compared to the Standard & Poor's 500 over a specified period of time; (b) strategic business unit earnings before or after taxes; (c) strategic business unit earnings before or after taxes and amortization of intangibles from acquisitions; (d) earnings (either in the aggregate or on a per-share basis, reflecting dilution of shares as the Compensation Committee deems appropriate and if the Committee so determines, net of or including dividends) before or after interest and taxes or before or after interest, taxes, depreciation and amortization; (e) gross or net revenue or changes in annual revenues; (f) cash flow(s) (including either operating or net cash flows); (g) financial return ratios; (h) stockholder return based on growth measures or the attainment by the shares of a specified value for a specified period of time, share price, or share price appreciation; (i) earnings growth or growth in earnings per share; (j) return measures, including return on net return on assets, net assets, equity, capital, investment, or gross sales; (k) adjusted pre-tax margin; (l) pre-tax profits; (m) operating margins; (n) operating profits; (o) operating expenses; (p) dividends; (q) net income or net operating income; (r) growth in operating earnings or growth in earnings per share; (s) value of assets; (t) market share or market penetration with respect to specific designated products or services or product or service groups and/or specific geographic areas; (u) aggregate product price and other product measures; (v) expense or cost levels, in each case,

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where applicable, determined either on a company-wide basis or in respect of any one or more strategic business units; (w) reduction of losses, loss ratios or expense ratios; (x) reduction in fixed costs; (y) operating cost management; (z) cost of capital; (aa) debt reduction; or (bb) productivity improvements. These business criteria may be applied on a pre-tax or post-tax basis, and may be based upon the performance of the Company or any of its subsidiaries, divisions or strategic business units. The Committee may at the time of grant in the case of Performance Shares intended to be qualified performance-based compensation, and in the case of other grants at any time, provide that the performance goals for Performance Shares include or exclude items to measure specific objectives, such as losses from discontinued operations, extraordinary gains or losses, the cumulative effect of accounting changes, acquisitions or divestitures, foreign exchange impacts and any unusual nonrecurring gain or loss.

The 2003 Plan limits the aggregate **maximum number of shares** of the Company's common stock that can be awarded in any one calendar year to any individual recipient under the 2003 Plan to 1,000,000 shares, whether such awards are in the form of common stock, restricted stock, stock options, incentive stock options, stock appreciation rights, performance rights, Performance Shares, or other rights that may be granted under the 2003 Plan.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE APPROVAL OF THE MATERIAL TERMS OF PERFORMANCE GOALS FOR PERFORMANCE SHARES ISSUED PURSUANT TO THE 2003 LONG-TERM EXECUTIVE COMPENSATION PLAN, AND PROXIES SOLICITED BY THE BOARD WILL BE SO VOTED IN THE ABSENCE OF INSTRUCTIONS TO THE CONTRARY.

ITEM 4 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 ended April 30, 2007. 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 preparing financial statements in accordance with generally accepted accounting principles and the financial reporting process, including the Company's disclosure controls and procedures and internal control over financial reporting. The Company's independent accountants are responsible for (i) auditing the Company's financial statements and expressing an opinion as to their conformity to accounting principles generally accepted in the United States and (ii) auditing management's assessment of the Company's internal control over financial reporting and expressing an opinion on such assessment. 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 and oversee matters relating to the Company's financial statements, internal audit activities, disclosure controls and procedures and internal control over financial reporting 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, 2006. 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.

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Based on the reviews and discussions referred to above, the Audit Committee recommended to the Board of Directors of the Company that the Company's audited financial statements be included in the Annual Report on Form 10-K for the fiscal year ended April 30, 2006, for filing with the Securities and Exchange Commission.

AUDIT COMMITTEE

Louis W. Smith, Chairman
 Jerry D. Choate
 Henry F. Frigon
 Roger W. Hale
 Len J. Lauer
 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, 2006 and 2005 and fees billed for other services rendered by KPMG LLP for such years (audit and audit-related fees for the year ended April 30, 2005 have been adjusted to reflect additional fees incurred in fiscal year 2005 with respect to restatements of prior consolidated financial statements):

Fiscal Year	2006	2005
Audit fees	\$4,113,270	\$4,673,978
Audit-related fees	612,163	282,772
Tax fees		252,186
All other fees		
Total fees	\$4,725,433	\$5,208,936

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

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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 2006 fiscal year was compatible with maintaining the independent accountant's independence.

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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:

- independent under the New York Stock Exchange's listing standards and the Board's Director Independence Standards,
- an outside director for purposes of Section 162(m) of the Internal Revenue Code, and
- a non-employee director pursuant to Rule 16b-3 under federal securities laws.

The Compensation Committee has retained Mercer Human Resource Consulting, an independent compensation consultant, to advise on executive compensation matters and generally assist the Compensation Committee in fulfilling its responsibilities. Among other things, Mercer advises the Compensation Committee on best practices in executive compensation and assesses the Company's competitive position and the levels of compensation for the different components of the Company's executive compensation program. Mercer also advises the Compensation Committee with respect to specific executive compensation decisions. The Compensation Committee has the right to terminate Mercer's services at any time.

The Company continues to be strongly committed to maximizing shareholder value through consistent growth and profitability. Superior performance by the Company's executive officers and management team 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.

The Compensation Committee works with Mercer to define the appropriate market for executive compensation and benchmarks the Company's executive compensation program against that market each year. In general, the Compensation Committee targets total compensation at the median of the market with a substantial portion of total compensation at risk for performance. The Compensation Committee links performance objectives to specific award levels (threshold, target and maximum) such that the targeted level of total compensation can be achieved only when targeted performance objectives are met. Consequently, executives may receive total compensation substantially above or below the target level depending upon performance.

COMPENSATION PROGRAM

The Company's executive compensation program consists of four elements: base salary, short-term incentives, long-term incentives and benefits and perquisites. This section of the report describes each of these elements, why they were selected and how the amounts of each element are determined.

BASE SALARY Base salaries are determined based on the scope of an executive's role, his or her experience, talents and performance, internal equity and similarly-scoped roles in peer companies. The peer companies utilized for this determination (the "Peer Group Companies") are selected based upon industry, size, and similarity to the Company in revenue, earnings, and market capitalization.

SHORT-TERM INCENTIVE PROGRAM The Company's short-term incentive program (the "STI Program") through fiscal year 2006 consists of two components—an objective incentive compensation component and a discretionary incentive compensation component. The objective incentive compensation component is based upon annual performance targets tied to business unit or overall corporate results and specifically ties executive pay to Company performance (the "Financial STI Component"). The discretionary incentive compensation component is based on achieving pre-established individual or strategic performance objectives (the "Discretionary STI Component"). A greater emphasis for executive officers (including the named executive officers) is placed upon the Financial STI Component—80% of targeted incentive compensation in most cases in fiscal year 2006. Under the STI Program, financial-performance goals based on the Company's fiscal year business plan and individual target bonus awards are reviewed by the Compensation Committee and approved by the Board's non-employee directors.

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. Pursuant to this plan's terms, the amount of restricted stock awarded is calculated by dividing the cash value of the applicable incentive compensation by the last reported closing

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price for the Company's stock as of June 30, 2006 (the date on which restricted stock is awarded under the plan).

Financial STI Component. Payments under the Financial STI Component are paid after the end of a fiscal year only if the Company (or applicable business unit) has met the financial-performance goals reviewed by the Compensation Committee and approved by the Board's non-employee directors for such fiscal year. Based upon the Compensation Committee's review and recommendation, and prior to payment of the financial STI component, the Board's non-employee directors (i) determine the extent to which the requisite performance targets have been achieved and (ii) approve the payout for an executive officer based upon the previously established financial performance goals. 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.

Fiscal year 2006 performance criteria under the Financial STI Component consisted of the following for corporate level executive officers (including the named executive officers):

- diluted earnings per share growth;
- business segment pre-tax earnings growth;
- revenue unit growth; and
- improved cost-of-service performance.

Fiscal year 2006 performance criteria under the Financial STI Component for individual business units typically included growth in corporate diluted earnings per share and business-unit-specific criteria. The business-unit-specific criteria generally included revenue and pre-tax earnings growth targets, as well as revenue unit growth and cost-of-service margins.

Discretionary STI Component. Payments under the Discretionary STI Component for fiscal year 2006 were based upon achievement of individual and strategic performance objectives that support the Company's priorities. For most executive officers (including the named 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 Objective STI Component could be from 0% to 200% of the target award. For fiscal year 2007, the Committee has determined that the Discretionary STI component should be eliminated, with 100% of the STI opportunity based on objective annual performance targets tied to business unit or overall corporate results.

EXECUTIVE PERFORMANCE PLAN In addition to the STI Program, the Company maintains the H&R Block Executive Performance Plan, which was approved by the Company's shareholders on September 7, 2005 (the Executive Performance Plan). To the extent an executive officer receives an award under the Executive Performance Plan, such officer does not receive an award under the Financial STI Component of the STI Program. The Executive Performance Plan permits the Company to provide its executive officers short-term incentive compensation intended to qualify as tax-deductible performance-based compensation under Section 162(m) of the Internal Revenue Code. Under the Executive Performance Plan, the Compensation Committee may grant performance-based awards to certain officers of the Company or its subsidiaries who are selected by the Compensation Committee, including the Company's Chief Executive Officer and its four other highest paid executive officers whose remuneration is potentially subject to Section 162(m). Fiscal year 2006 performance criteria under the Executive Performance Plan were the same as the fiscal year 2006 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, restricted stock and performance shares (see the discussion of the new Long-Term Incentive Plan below). These awards provide executives an economic interest in increasing shareholder value over the long term, 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 2006 generally become exercisable (i) over a three-year period in one-third increments or (ii) upon occurrence of a change of control of the Company (if earlier). Restrictions on restricted stock granted in fiscal year 2006 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 may not be transferred and is forfeited upon cessation of employment. In addition, restricted stock recipients (i) receive cash dividends payable with respect to unvested restricted stock on the same basis as if restrictions on such stock had lapsed and (ii) vote unvested restricted stock shares at shareholders meetings.

NEW LONG-TERM INCENTIVE PLAN In fiscal year 2007, the Company will implement a new performance-based long-term incentive program for senior executives. Under this program, the restricted stock component of the Company's current long-term incentive compensation program will be replaced by performance shares. Performance shares will vest after three years, subject to pre-established performance objectives. An executive will earn the target number of performance shares for achievement of targeted performance. An executive may receive up to one and

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one-half times the target number of performance shares (maximum) for superior performance. However, an executive may earn as few as one half of the target number of performance shares for performance below target. Performance shares reflect a face value equal to the market value of the Company's stock price and are paid out in Company common shares at vesting. Unlike restricted stock, performance shares do not pay dividends during the vesting period. Any dividend equivalents are carried as fractional performance shares until vesting. Unvested performance shares do not carry voting rights. However, shares earned through achievement of performance objectives, once paid out, will carry voting rights.

For eligible executives granted awards in fiscal year 2007, performance shares will be earned based on the Company's total shareholder return as measured against a broad market index and/or cumulative financial performance specific to their business responsibilities.

Stock options, restricted stock, and performance shares are awarded to executive officers annually and sometimes as part of an employment offer. The number of shares subject to any award is based on the executive officer's level of responsibility, prior year's performance, ability to impact the Company's future performance, and awards made to executive officers in similar positions in the market. The Compensation Committee believes that equity-based awards 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 by offering participants the opportunity to defer salary and short-term incentive compensation. 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 previously to one of the Company's qualified retirement plans for that year. Company contributions vest over a ten-year period starting from the date an executive officer first participates in the plan. In addition, Company contributions vest upon a change in control. 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 provides certain benefits to all employees such as employer 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. Pursuant to the Company's Executive Survivor Plan, the Company purchases life insurance policies on participating executive officers with death benefits payable to beneficiaries designated by the participating executive officers.

The Company does not provide any other perquisites to executive officers. The Company pays for the use of non-commercial aircraft on a time-share or rental basis only when such use is for business travel purposes. Accordingly, executive officers reimburse the Company for any personal use of non-commercial aircraft utilized on a time-share or rental basis.

ACCOUNTING FOR STOCK-BASED COMPENSATION In fiscal year 2006, the Company recognized stock-based compensation expense for the issuance of stock options and restricted stock, as well as stock purchased by employees under the Company's employee stock purchase plan pursuant to Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation. Under this accounting methodology, the Company recognized stock-based compensation expense for the issuance of stock options, restricted stock and the employee stock purchase plan on a straight-line basis over applicable vesting periods. The Company has adopted Statement of Financial Accounting Standards No. 123(R), Share-Based Payment, for fiscal year 2007.

EXECUTIVE STOCK OWNERSHIP GUIDELINES The Company believes that its executive officers 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 executive officers 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 executive officers. Executive officers subject to the Company's executive stock ownership guidelines generally are in compliance, or are progressing toward compliance, with such guidelines.

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 executive officers 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

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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. Pursuant to this agreement, Mr. Ernst's base salary and incentive bonus compensation are reviewed annually by the Compensation Committee. Last year, based upon this review and Mr. Ernst's performance against individual and strategic objectives, the Compensation Committee recommended and the non-employee directors approved an increase in Mr. Ernst's annual base rate of salary from \$825,000 to \$860,000, effective July 1, 2005. In establishing Mr. Ernst's salary increase, the Compensation Committee considered the Company's overall performance as well as desired positioning against base salary levels in the market. This year, Mr. Ernst declined to accept any salary increase. Therefore, his salary will remain the same (\$860,000) for fiscal year 2007.

Last year, the Compensation Committee recommended and the Board approved a target award opportunity under the Executive Performance Plan for Mr. Ernst for fiscal year 2006 of \$756,800. The target award under the Executive Performance Plan constitutes 80% of Mr. Ernst's overall short-term incentive compensation target award, half of which is based on earnings per share growth and half upon business-unit-specific metrics. Although, based on the Company's results for fiscal year 2006, Mr. Ernst earned a non-discretionary payment under the Executive Performance Plan of \$355,696 (38% of target), he declined to accept such compensation.

Also last year, under the Discretionary STI Component of the STI Program a target award of \$189,200 (20% of overall target short-term incentive compensation award) was established for Mr. Ernst, with an actual payout to be recommended by the Compensation Committee for approval by the non-employee Board members based upon Mr. Ernst's progress against strategic priorities reviewed by the Compensation Committee and approved by the Board in June 2005. However, Mr. Ernst declined to accept any payment under the Discretionary STI Component for fiscal year 2006.

In June 2005 Mr. Ernst was granted an option to purchase 260,000 shares of Common Stock at an option price of \$29.175 per share, the last quoted market price for the Company's Common Stock on June 30, 2005, the date of grant (as adjusted to reflect a two-for-one stock split as of August 22, 2005). 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 30,000 shares of restricted stock (as adjusted to reflect a two-for-one stock split as of August 22, 2005). Restrictions on such restricted stock lapse over a three-year period in one-third annual increments, beginning June 30, 2006. These awards reflect the Compensation Committee's desire to provide a competitive long-term incentive opportunity, aligned with shareholders' interests.

Mr. Ernst received no other benefits or perquisites during fiscal year 2006 other than those generally available to other executive officers as described in this report.

In June 2006 Mr. Ernst was granted long-term incentive awards under the Company's 2003 Long-Term Incentive Compensation Plan. The awards consisted of (i) an option to purchase 376,885 shares of Common Stock at an option price equal to the last quoted market price for the Company's Common Stock on June 30, 2006 (the date of grant) and (ii) a target award of 33,335 performance shares. The stock option has a ten-year term and vests in one-third annual increments beginning on the first anniversary of the date of grant. The performance shares vest after three years, with the actual number of performance shares Mr. Ernst will ultimately receive depending on the Company's total shareholder return against a broad market index. These awards reflect the Compensation Committee's desire to provide a competitive long-term incentive opportunity, aligned with shareholders' interests.

REVIEW OF ALL COMPONENTS OF EXECUTIVE COMPENSATION During the course of fiscal year 2006, 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 Compensation Committee also reviewed tally sheets of executive termination costs for each of these executive officers, including payments upon any change of control.

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 section 162(m), although individual exceptions may occur.

The Compensation 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 Compensation Committee may, however, recommend for Board approval non-deductible compensation when it believes that such

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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

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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.

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SUMMARY COMPENSATION TABLE

The following table sets forth for the fiscal year ended April 30, 2006 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.

		Annual Compensation			Long-Term Compensation Awards				Other
Name and Principal Position	Fiscal Year	Salary (\$)	Bonus Compensation (\$) ⁽¹⁾	Other Annual Compensation (\$) ⁽²⁾	Restricted Stock Award(s) (\$) ⁽³⁾	Securities Underlying Options (#)	LTIP Payouts (\$)	All Other Compensation (\$) ⁽⁴⁾	Value of Total Compensation (\$) ⁽⁵⁾
Mark A. Ernst, Chairman of the Board, President and Chief Executive Officer	2006	854,167	-0-	1,590	879,450	260,000	-0-	70,024	3,734,431
	2005	816,250	394,292	1,509	714,975	220,000	-0-	81,200	3,530,626
	2004	768,750	865,477	1,574	430,000	220,000	-0-	90,958	3,412,958
Robert E. Dubrish, President and Chief Executive Officer, Option One Mortgage Corporation	2006	504,692	75,000	40	410,410	140,000	-0-	34,679	2,063,622
	2005	472,372	203,432	42	309,823	170,000	-0-	42,752	2,204,821
	2004	450,000	438,681	40	228,687	180,000	-0-	66,097	2,211,306
William L. Trubeck Executive Vice President and Chief Financial Officer	2006	461,250	185,000	-0-	410,410	100,000	-0-	20,889	1,819,549
	2005	260,795	72,457	120,501	501,250	100,000	-0-	12,557	1,659,561
	2004	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Steven Tait President, RSM McGladrey Business Services, Inc.	2006	457,920	300,000	40	410,410	100,000	-0-	42,615	1,952,985
	2005	429,794	357,095	42	238,325	70,000	-0-	29,642	1,539,298
	2004	400,000	217,008	272	-0-	80,000	-0-	22,216	1,096,296
Nicholas J. Spaeth Senior Vice President and Chief Legal Officer	2006	410,000	93,000	1,240	293,150	50,000	-0-	31,270	1,199,660
	2005	400,000	101,533	-0-	238,325	70,000	-0-	44,182	1,268,440
	2004	100,000	300,000	1,982	1,159,800	400,000	-0-	3,921	3,849,703

NOTES:

- (1) For fiscal year 2006, although Mr. Ernst earned a short-term incentive award under the Company's short-term incentive compensation programs, he declined such award.
- (2) For fiscal year 2006, (a) the \$1,590 figure represents the dollar value of tax preparation and advice provided by the Company to Mr. Ernst; (b) the \$40 figure represents payment by the Company for participation by Mr. Dubrish in the Company's group legal plan; (c) the \$40 figure represents payment by the Company for participation by Mr. Tait in the Company's group legal plan; and (d) the \$1,240 figure represents the dollar value of tax preparation and advice provided by the Company to Mr. Spaeth.
- (3) 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 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 2006, 30,000 shares granted on June 30, 2005, valued at \$29.315 per share. As of April 30, 2006, Mr. Ernst held 56,666 unvested restricted shares with a value of \$1,295,668. Mr. Ernst received dividends totaling \$26,283 on the restricted shares during fiscal year 2006.
 Robert E. Dubrish For fiscal year 2006, 14,000 shares granted on June 30, 2005, valued at \$29.315 per share. As of April 30, 2006, Mr. Dubrish held 28,514 unvested restricted shares with a value of \$651,973. Mr. Dubrish received dividends totaling \$13,610 on the

restricted shares during fiscal year 2006.

William L. Trubeck For fiscal year 2006, 14,000 shares granted on June 30, 2005, valued at \$29.315 per share. As of April 30, 2006, Mr. Trubeck held 27,333 unvested restricted shares with a value of \$624,969. Mr. Trubeck received dividends totaling \$13,283 on the restricted shares during fiscal year 2006.

Steven Tait For fiscal year 2006, 14,000 shares granted on June 30, 2005, valued at \$29.315 per share. As of April 30, 2006, Mr. Tait held 20,666 unvested restricted shares with a value of \$472,528. Mr. Tait received dividends totaling \$13,475 on the restricted shares during fiscal year 2006.

Nicholas J. Spaeth For fiscal year 2006, 10,000 shares granted on June 30, 2005, valued at \$29.315 per share. As of April 30, 2006, Mr. Spaeth held 43,333 unvested restricted shares with a value of \$990,809. Mr. Spaeth received dividends totaling \$25,083 on the restricted shares during fiscal year 2006.

- (4) For fiscal year 2006, these figures include the following: (a) the Company's matching contributions under the Company's Deferred Compensation Plan for Executives (DCP) of \$51,340 (Mr. Ernst), \$23,484 (Mr. Dubrish), \$24,124 (Mr. Tait), and \$14,877 (Mr. Spaeth); (b) the Company's matching contributions under the H&R Block Retirement Savings Plan (RSP) of \$15,833 (Mr. Ernst), \$7,846 (Mr. Dubrish), \$11,827 (Mr. Trubeck), \$15,746 (Mr. Tait) and \$10,700 (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 \$1,174 (Mr. Ernst), \$1,864 (Mr. Dubrish), \$635 (Mr. Trubeck), \$665 (Mr. Tait), and \$564 (Mr. Spaeth); and (d) the economic value of the death benefit provided by the Company's Executive Survivor Plan (ESP) of \$1,677 (Mr. Ernst), \$1,485 (Mr. Dubrish), \$8,426 (Mr. Trubeck), \$2,079 (Mr. Tait) and \$5,129 (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.
- (5) For purposes of determining the Value of Total Compensation, stock option awards were valued using the Black-Scholes option pricing model as of the date of grant. Our use of the Black-Scholes model does not necessarily mean we believe or acknowledge that it can accurately determine the value of options. The ultimate value of options, if any, will depend on the future market price of the underlying common stock and the optionee's individual investment decisions, neither of which can be predicted with any degree of certainty. For fiscal year 2006, stock option awards were valued at \$1,929,200 (Mr. Ernst), \$1,038,800 (Mr. Dubrish), \$742,000 (Mr. Trubeck), \$742,000 (Mr. Tait), and \$371,000 (Mr. Spaeth).

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STOCK OPTION GRANT TABLE

The following table summarizes options to purchase the Company's Common Stock granted during the fiscal year ended April 30, 2006 to the executive officers named in the Summary Compensation Table (the "Named Officers") above.

Name	Number of Securities Underlying Options Granted (#) ⁽²⁾	% of Total Options Granted to Employees in Fiscal Year	Exercise Price (\$/Sh) ⁽²⁾	Expiration Date	Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term ⁽¹⁾	
					5% (\$)	10% (\$)
Mark A. Ernst	260,000	3.76	29.175	6/30/2015	4,770,480	12,089,333
Robert E. Dubrish	140,000	2.02	29.175	6/30/2015	2,568,720	6,509,641
William L. Trubeck	100,000	1.45	29.175	6/30/2015	1,834,800	4,649,744
Steven Tait	100,000	1.45	29.175	6/30/2015	1,834,800	4,649,744
Nicholas J. Spaeth	50,000	.72	29.175	6/30/2015	917,400	2,324,872

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 2006. 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.

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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, 2006 and presents the value of unexercised options as of such date for the Named Officers. 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:

Name	Shares Acquired on Exercise (#)	Value Realized (\$)	Number of Securities Underlying Unexercised Options at FY-End (#)	Value of Unexercised In-the-Money Options at FY-End (\$)
			Exercisable (E)/ Unexercisable (U)	Exercisable (E)/ Unexercisable (U)
Mark A. Ernst	-0-	-0-	1,760,009(E) 679,991(U)	\$ 16,415,692(E) \$ 898,233(U)
Robert E. Dubrish	160,000	\$ 3,058,645	440,674(E) 413,326(U)	\$ 1,363,552(E) \$ 343,500(U)
William L. Trubeck	-0-	-0-	33,334(E) 166,666(U)	\$ -0-(E) \$ -0-(U)
Steven Tait	-0-	-0-	143,334(E) 206,666(U)	\$ 162,133(E) \$ 81,067(U)
Nicholas J. Spaeth	-0-	-0-	290,000(E) 230,000(U)	\$ -0-(E) \$ -0-(U)

H&R BLOCK 2006 Proxy Statement

PERFORMANCE GRAPH

The graph below sets forth for the five-year period ended April 30, 2006, 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 and Professional 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, 2001 and that dividends were reinvested. The data for the graph was furnished by Research Data Group, Inc.

CUMULATIVE TOTAL SHAREHOLDER RETURN

	4/01	4/02	4/03	4/04	4/05	4/06
H&R BLOCK, INC.	100.00	148.25	145.07	172.24	193.53	181.00
S & P 500	100.00	87.37	75.75	93.08	98.97	114.23
S & P DIVERSIFIED COMMERCIAL AND PROFESSIONAL SERVICES	100.00	108.01	99.48	144.12		