SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)
[x] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended July 31, 1994

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

Commission file number 1-6089

H&R BLOCK, INC.

(Exact name of registrant as specified in its charter)

MISSOURI	44-0607856
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

4410 Main Street
Kansas City, Missouri 64111

(Address of principal executive offices, including zip code)

(816) 753-6900

(Registrant's telephone number, including area code)

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

Yes [X] No [ ]

The number of shares outstanding of the registrant's Common Stock, without par value, at September 8, 1994 was 104,285,210 shares.

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Condition and Results of Operations

PART II   Other Information

SIGNATURES

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

ASSETS	July 31, 1994	April 30, 1994
CURRENT ASSETS		
Cash (including certificates of deposit of $7,540 and $23,519)	$ 32,054	$ 41,343
Marketable securities	339,573	473,043
Receivables, less allowance for doubtful accounts of $12,709 and $12,744	141,459	165,858
Prepaid expenses	26,400	19,551
TOTAL CURRENT ASSETS	539,486	699,795
INVESTMENTS AND OTHER ASSETS		
Investments in marketable securities	107,015	105,705
Excess of cost over fair value of net tangible assets acquired, net of amortization	65,056	67,679
Other	37,940	36,301
	210,011	209,685
PROPERTY AND EQUIPMENT, at cost less accumulated depreciation and amortization	167,937	165,224
	$ 917,434	$ 1,074,704
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Notes payable	$ 47,132	$ -
Accounts payable, accrued expenses and deposits	119,951	160,592
Accrued salaries, wages and payroll taxes	16,186	55,195
Accrued taxes on income	80,538	120,425
TOTAL CURRENT LIABILITIES	263,807	336,212
OTHER NONCURRENT LIABILITIES	34,382	30,617
STOCKHOLDERS' EQUITY		
Common stock, no par, stated value $.01 per share	1,089	1,089
Additional paid-in capital	91,318	90,552
Retained earnings	691,272	719,724
	783,679	811,365
Less cost of 4,313,539 and 2,823,605 shares of common stock in treasury	164,434	103,490
	619,245	707,875
	$ 917,434	$ 1,074,704

<FN>
See Notes to Consolidated Financial Statements.
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H&R BLOCK, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
Unaudited, amounts in thousands, except per share amounts

	Three Months Ended July 31, 1994	Three Months Ended July 31, 1993
REVENUES		
Service revenues	$ 135,719	$ 97,591
Franchise royalties	1,187	1,071
Investment income	5,151	4,067
Other income	3,343	585
	145,400	103,314
EXPENSES		
Employee compensation and benefits	44,994	36,896
Occupancy and equipment	60,910	48,269
Marketing and advertising	6,443	4,389
Supplies, freight and postage	6,680	5,314
Other	31,170	22,821
	150,197	117,689

Loss from continuing operations before income tax benefit	(4,797)	(14,375)
Income tax benefit	(1,837)	(6,132)
NET LOSS FROM CONTINUING OPERATIONS	(2,960)	(8,243)
Net earnings from discontinued operations (less applicable income taxes of $2,682)	-	2,802
NET LOSS	$ (2,960)	$ (5,441)
Weighted average number of common shares outstanding	105,126	105,898
LOSS PER SHARE		
From continuing operations	$ (.03)	$ (.08)
Net loss	$ (.03)	$ (.05)
Dividends per share	$ .28	$ .25

<FN>

See Notes to Consolidated Financial Statements.

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

	Three Months Ended July 31, 1994	1993
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$ (2,960)	$ (5,441)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	15,137	14,672
Gain on sale of subsidiaries	(2,796)	-
Other noncurrent liabilities	3,765	2,018
Changes in:		
Receivables	24,399	87,560
Prepaid expenses	(6,849)	(8,309)
Accounts payable, accrued expenses and deposits	(40,641)	(40,473)
Accrued salaries, wages and payroll taxes	(39,009)	(25,390)
Accrued taxes on income	(42,357)	(33,629)
NET CASH USED IN OPERATING ACTIVITIES	(91,311)	(8,992)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of marketable securities	(488,748)	(193,658)
Maturities of marketable securities	627,356	333,635
Purchases of property and equipment	(16,835)	(19,080)
Excess of cost over fair value of net tangible assets acquired, net of cash acquired	(682)	(1,767)
Other, net	3,527	(9,507)
NET CASH PROVIDED BY INVESTING ACTIVITIES	124,618	109,623
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayments of notes payable	(419,562)	(80,661)
Proceeds from issuance of notes payable	466,694	43,494
Dividends paid	(29,550)	(26,512)
Payments to acquire treasury shares	(63,610)	(40,207)
Proceeds from stock options exercised	3,432	1,637
NET CASH USED IN FINANCING ACTIVITIES	(42,596)	(102,249)
Net decrease in cash	(9,289)	(1,618)
Cash at beginning of period	41,343	43,417
Cash at end of period	$ 32,054	$ 41,799
Supplemental disclosures of cash flow information		
Income taxes paid	$ 38,050	$ 30,217
Interest paid	449	326

<FN>

See Notes to Consolidated Financial Statements.

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H&R BLOCK, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Unaudited

1. The Consolidated Balance Sheet as of July 31, 1994, the Consolidated Statements of Operations for the three months ended July 31, 1994 and 1993 and the Consolidated Statements of Cash Flows for the three months ended July 31, 1994 and 1993 have been prepared by the Company, without audit. In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position, results of operations and cash flows at July 31, 1994 and for all periods presented have been made.

   Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. These consolidated financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's April 30, 1994 Annual Report to Shareholders.

   Operating revenues are seasonal in nature with peak revenues occurring in the months January through April. Thus, the three months results are not indicative of results to be expected for the year.

2. During the third quarter of fiscal 1994, the Company sold 100% of the common stock of its wholly-owned subsidiary, Interim Services Inc. Prior year amounts include Interim's results, reported as discontinued operations. The Company acquired MECA Software, Inc. in November 1993. The acquisition was accounted for as a purchase and, accordingly, the Consolidated Statements of Operations include MECA's results since the date of acquisition.

3. In May 1993, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities." This Standard addresses the reporting for debt and equity securities by requiring such investments to be classified in held-to-maturity, available-for-sale or trading categories. The Company adopted this Standard on May 1, 1994. All marketable debt and equity securities have been classified as current or noncurrent available-for-sale securities, and are carried at market value with unrealized gains and losses included in stockholders' equity. The adoption of this Standard resulted in an increase to stockholders' equity of $5,526,000 (net of taxes of $3,431,000), representing the aggregate excess market value over carrying value of the Company's securities on the date of adoption. During the quarter ended July 31, 1994, the net unrealized holding gain on available-for-sale securities decreased $1,548,000 to $3,978,000. Net earnings for the period were not affected by the accounting change.

4. The Company files its Federal and state income tax returns on a calendar year basis. The Consolidated Statements of Operations reflect the effective tax rates expected to be applicable for the respective full fiscal years.

5. Net loss per common share is based on the weighted average number of shares outstanding during each period. The weighted average shares outstanding for the first quarter of fiscal 1995 declined to 105,126,000 from 105,898,000 last year, due to repurchase of outstanding shares in the first three months of this year, offset by treasury shares issued for stock option exercises.

6. During the three months ended July 31, 1994 and 1993, the Company issued 71,566 and 69,349 shares, respectively, pursuant to provisions for exercise of its stock option plans; during the same period, the Company acquired 1,561,500 and 1,145,816 shares of its common stock at an aggregate cost of $63,610,000 and $40,207,000, respectively.

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

FINANCIAL CONDITION

These comments should be read in conjunction with the Consolidated Balance Sheets and Consolidated Statements of Cash Flows found on pages 3 and 5, respectively.

Working capital decreased from $363.6 million at April 30, 1994 to $275.7 million at July 31, 1994. The working capital ratio at July 31, 1994 was 2.0 to 1 compared to 2.1 to 1 at April 30, 1994. The decrease in working capital and working capital ratio must be viewed in the context of the Company's business which is seasonal, with peak activity in the fourth quarter, due to the nature of the Company's largest segment, Tax Services. Tax return preparation occurs almost entirely in the fourth quarter and has the effect of increasing certain assets and liabilities during this time.

The Company has no long-term debt. However, the Company maintains seasonal lines of credit to support short-term borrowing facilities in the United States and Canada. During the months of January through April, the Company's Canadian Tax Services regularly incurs short-term borrowings to purchase refunds due its clients. Additionally, Block Financial Corporation (BFC), a wholly-owned subsidiary of the Company, incurs short-term borrowings during the months of January through April to purchase interests in a trust to which certain Refund Anticipation Loans made by Mellon Bank are sold. BFC also incurs short-term borrowings throughout the year to fund receivables associated with its credit card program. At July 31, 1994, short-term borrowings used to fund credit card receivables totaled $47.1 million. There were no borrowings outstanding at April 30, 1994. The Company also maintains a year-round $100 million line of credit to support various financial activities conducted by BFC.

The Company's acquisition of treasury shares, capital expenditures and dividend payments during the first three months were funded through internally-generated funds.

RESULTS OF OPERATIONS

During the third quarter of fiscal 1994, the Company sold 100% of the common stock of its wholly-owned subsidiary, Interim Services Inc. Prior year amounts include Interim's results, reported as discontinued operations. The results of Interim Services Inc. were previously reflected as the Temporary Help Services segment.

The Company acquired MECA Software, Inc. in November 1993. The transaction was accounted for as a purchase and, accordingly, results include MECA's operations subsequent to the date of acquisition. The personal finance software operations of MECA Software, Inc. are included in the Financial Services segment; the personal tax software operations are included as Other Services.

The analysis of operations that follows should be read in conjunction with the table below and the Consolidated Statements of Operations found on page 4.

Three Months Ended July 31, 1994 Compared to
Three Months Ended July 31, 1993
(amounts in thousands)

	Revenues 1994	Revenues 1993	Earnings (loss) 1994	Earnings (loss) 1993
Tax services	$ 9,563	$ 9,672	$ (39,998)	$ (37,164)
Computer services	127,896	91,888	33,912	21,588
Financial services	5,989	537	211	(118)
Other services	78	-	(2,039)	-
Inter-segment sales	(3,277)	(2,850)	-	-
	140,249	99,247	(7,914)	(15,694)
Investment income	5,151	4,067	5,151	4,067
Unallocated corporate	-	-	(2,034)	(2,748)
	$ 145,400	$ 103,314	(4,797)	(14,375)
Income tax benefit			(1,837)	(6,132)
Net loss from continuing operations			(2,960)	(8,243)
Net earnings from discontinued operations			-	2,802
Net loss			$ (2,960)	$ (5,441)

Consolidated revenues for the three months ended July 31, 1994 increased 40.7% to $145.400 million from $103.314 million reported last year. The increase is due to greater revenues reported by the Computer Services and Financial Services segments.

The consolidated pretax loss for the first quarter of fiscal 1995 improved 66.6% to $4.797 million from a loss from continuing operations of $14.375 million in the first quarter of last year. The significant improvement in the first quarter loss is due to the improved operating results of the Computer Services segment, which include a pretax gain of $2.796 million from the sales of two subsidiaries, offset by increased losses reported by the Tax Services segment and Other Services.

The net loss was $2.960 million, or $.03 per share, compared to a net loss from continuing operations of $8.243 million, or $.08 per share, for the same period last year. Discontinued operations which were sold in January 1994 contributed earnings of $.03 per share in the first quarter of fiscal 1994.

An analysis of operations by segment follows.

TAX SERVICES
Revenues decreased 1.1% to $9.563 million from $9.672 million last year, due primarily to lower sales of supplies to franchises in the United States and lower discounted return fees in Canada. Due to the seasonality of this segment's business, the decline in first quarter revenues is not indicative of expected results for the entire fiscal year.

The pretax loss increased 7.6% to $39.998 million from $37.164 million in the first quarter of last year, due to increased office rent and employee-related expenses and the slight decrease in revenues.

COMPUTER SERVICES
Revenues increased 39.2% to $127.896 million from $91.888 million in the comparable period last year due to increases in both consumer and network revenues. Consumer Services revenues were 49.6% better than last year, despite a price decrease in February 1994. The growth in consumer revenues is due to the significant increase in new customers in the United States and further expansion into Europe. Network Services revenues were 33.2% better than last year, due to increasing usage and new customers. Computer Services

revenues include a pretax gain of $2.796 million on the sale of two software subsidiaries. Exclusive of the gain on the sale and the operating revenues of these subsidiaries, Computer Services revenues increased 41.5% as compared to the first quarter of fiscal 1994.

Pretax earnings increased 57.1% to $33.912 million from $21.588 million in the first quarter of fiscal 1994. The increase in pretax earnings is attributable to the continued strong performances of the Consumer and Network divisions, in addition to the gains recorded on the sale of two subsidiaries. Excluding the gain and operating results of the software subsidiaries sold, pretax earnings increased 44.5% from the comparable period last year. Pretax earnings as a percentage of revenues, excluding the gains on sales of subsidiaries, was 24.9% for the first quarter of fiscal 1995, compared to 23.5% for the same period last year. The increase in the pretax margin resulted primarily from the exceptional increases in revenues which outpaced expenses, a significant portion of which are fixed.

FINANCIAL SERVICES

Revenues increased to $5.989 million compared to $537 thousand for the same period last year. The increase in revenues was due to increases in credit card fees and refund loan participation fees, and the revenues of the personal finance software operations of MECA Software, Inc.

Pretax operating results improved from a loss of $118 thousand in the first quarter of fiscal 1994 to earnings of $211 thousand in the first quarter of fiscal 1995. The improved results were primarily due to refund anticipation loan activity, partially offset by a loss reported by the personal finance software operations and corporate overhead.

OTHER SERVICES

Other Services represent the operations of the personal tax software business of MECA Software, Inc., which was acquired in November of 1993. The first quarter loss of $2.039 million resulted from the seasonality of tax preparation software sales, which normally peak during the third and fourth quarters of the fiscal year. The loss includes goodwill amortization expense of $247 thousand.

INVESTMENT INCOME

Investment income increased 26.7% to $5.151 million from $4.067 million last year. The increase resulted primarily from greater funds available for investment, largely due to the proceeds from the sale of Interim Services Inc. received in the fourth quarter of fiscal 1994.

CORPORATE AND ADMINISTRATIVE EXPENSES

The corporate and administrative pretax loss for the first quarter decreased 26.0% to $2.034 million from $2.748 million in the comparable period last year. The improvement is the result of the first-time allocation to operating segments of certain employee benefit expenses paid at the corporate level, in addition to management's efforts to control corporate overhead expenses.

PART II - OTHER INFORMATION

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

(a) Exhibits

(10) The H&R Block Deferred Compensation Plan for Directors, as amended.
(27) Financial Data Schedule.

(b) Reports on Form 8-K

During the quarter ended July 31, 1994, the registrant filed a current report on Form 8-K dated May 10, 1994, pertaining to the disposition of the registrant's entire interest in its indirect wholly-owned subsidiary, Interim Services Inc.

No other current reports on Form 8-K were filed during the quarter ended

July 31, 1994.

SIGNATURES

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

H&R BLOCK, INC.
(Registrant)

DATE	09/14/94	BY	/s/ William P. Anderson William P. Anderson Senior Vice President and Chief Financial Officer
DATE	09/14/94	BY	/s/ Ozzie Wenich Ozzie Wenich Vice President, Corporate Controller and Treasurer

Exhibit 10

H&R BLOCK

DEFERRED COMPENSATION PLAN

FOR DIRECTORS

(As Amended Through March 9, 1994)

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H&R BLOCK
DEFERRED COMPENSATION PLAN
FOR DIRECTORS

H&R BLOCK

DEFERRED COMPENSATION PLAN

FOR DIRECTORS

H&R Block, Inc. (the "Company") hereby establishes, effective September 1, 1987, a nonqualified deferred compensation plan for the benefit of specified Directors of the Company, and of the following affiliates of the Company: CompuServe Incorporated, Personnel Pool of America, Inc., Path Management Industries, Inc. and such other entities as may be designated by the Company from time to time. This plan shall be known as the H&R Block Deferred Compensation Plan for Directors (the "Plan"). The Plan is intended to be an unfunded plan maintained primarily for the purpose of providing deferred compensation for a select group of management or highly compensated employees as described in Sections 201(2), 301(a)(3) and 401(a)(1) of the Employee Retirement Income Security Act of 1974 ("ERISA").

ARTICLE 1. DEFERRED COMPENSATION ACCOUNT.

Section 1.1. Establishment of Account. The Company shall establish an account ("Account") for each Participant which shall be utilized solely as a device to measure and determine the amount of deferred director's fees to be paid under the Plan.

Section 1.2. Property of Company and Participating Affiliates. Any amounts so set aside for benefits payable under the Plan are the property of the Company and its participating affiliates ("Participating Affiliates"), except, and to the extent, of any assignment of such assets to an irrevocable trust.

ARTICLE 2. DEFINITIONS, GENDER, AND NUMBER.

Section 2.1. Definitions. Whenever used in the Plan, the following words and phrases shall have the meanings set forth below unless the context plainly requires a different meaning, and when a defined meaning is intended, the term is capitalized.

2.1.1. "Account" means the device used to measure and determine the amount of deferred director's fees to be paid to a Participant or Beneficiary under the Plan, and may refer to the separate Accounts that represent amounts deferred by a Participant under separate Permissible Deferral elections.

2.1.2. "Affiliates" or "Affiliate" means a group of entities, including the Company, which constitutes a controlled group of corporations (as defined in section 414(b) of the Code), a group of trades or businesses (whether or not incorporated) under common control (as defined in section 414(c) of the Code), and members of an affiliated service group (within the meaning of section 414(m) of the Code.)

2.1.3. "Age" of a Participant means the number of whole calendar years that have elapsed since the date of the Participant's birth.

2.1.4. "Beneficiary" or "Beneficiaries" means the persons or trusts designated by a Participant in writing pursuant to Section 6.4.4 of the Plan as being entitled to receive any benefit payable under the Plan by reason of the death of a Participant, or, in the absence of such designation, the persons specified in Section 6.4.5 of the Plan.

2.1.5. "Board" means the Board of Directors of the Company as constituted at the relevant time.

2.1.5a. "Closing Price" means the closing price of the Company's Common Stock on the New York Stock Exchange as of the applicable date; provided, however, that if no closing price is available for such date, "Closing Price" means the closing price of the Company's Common Stock as of the next most recent date for which a price is available.

2.1.6. "Code" means the Internal Revenue Code of 1986, as amended from time to time and any successor statute. References to a Code section shall be deemed to be to that section or to any successor to that section.

2.1.7. "Committee" means the Compensation Committee of the Company's Board.

2.1.7a. "Common Stock" means the common stock of the Company.

2.1.8. "Company" means H&R Block, Inc.

2.1.8a. "Deferred Compensation Unit" means a unit equal in value to one share of Common Stock and posted to a Participant's Account for the purpose of measuring the benefits payable under the Plan.

2.1.9. "Director" or "Directors" means a Non-Employee serving as a member on the Board of Directors of a Participating Affiliate.

2.1.10. "Director's Fees" of a Director for any Plan Year means that individual's total Retainer and Meeting Fees for that Plan Year.

2.1.11. "Effective Date" means the date on which this Plan became effective, i.e., September 1, 1987.

2.1.12. "Enrollment Period" means the period of February 15 through April 15 prior to the Plan Year to which a Permissible Deferral election first applies. However, for the first Plan Year, the Enrollment Period shall be August 1, 1987 through August 31, 1987.

2.1.13. "Non-Employee" means any person who is not employed as a common-law employee by an Affiliate.

2.1.14. "Participant" means a Non-Employee Director who elects to participate in the Plan and who is eligible to participate in the Plan.

2.1.15. "Participating Affiliate" or "Participating Affiliates" means the Company and the following indirect subsidiaries of the Company: HRB Management, Inc., H&R Block Tax Services, Inc., CompuServe Incorporated, Block Financial Corporation, and MECA Software, Inc., and the U.S. subsidiaries of such indirect subsidiaries; and such other entities as may be designated as such by the Company from time to time.

2.1.16. "Permissible Deferral" means a deferral in each of the next four (4) consecutive Plan Years of an amount or percentage of Director's Fees that is not less nor more than one hundred percent (100%) of Director's Fees.

Director's Fees deferrals shall be made in single sum deferrals at the time that the Director's Fees would otherwise be paid to the Director. All deferrals must be completed by the later of (a) the Plan Year in which the Participant attains Age 68 or (b) April 30, 1991.

2.1.17. "Plan" means the "H&R Block Deferred Compensation Plan for Directors" as set forth herein and as amended or restated from time to time.

2.1.18. "Plan Year" means May 1 through April 30, except that the first Plan Year shall be from September 1, 1987 through April 30, 1988.

2.1.19. "Smoker" or "Smokers" with respect to any Permissible Deferral election means any individual who has smoked at least one cigarette with a twelve (12) month period ending on the date on which such individual makes the Permissible Deferral election.

2.1.20. "Standard Form of Benefit" as to any Participant means monthly payments for a ten (10) year period.

2.1.21. "Trust" means the H&R Block Inc., Deferred Compensation Trust Agreement.

Section 2.2. Gender and Number. Except as otherwise indicated by context, masculine terminology used herein also includes the feminine and neuter, and terms used in the singular may also include the plural.

ARTICLE 3. PARTICIPATION.

Section 3.1. Who May Participate. Participation in the Plan is limited to Directors.

Section 3.2. Time and Conditions of Participation. An eligible Director shall become a Participant only upon (a) the individual's completion of a Permissible Deferral election for the succeeding Plan Years during an Enrollment Period, in accordance with a form established by the Company from time to time, and (b) compliance with such terms and conditions as the Committee may from time to time establish for the implementation of the Plan, including, but not limited to, any condition the Committee may deem necessary or appropriate for the Company to meet its obligations under the Plan.

Section 3.3. Termination of Participation. Once a Director has become a Participant in the Plan, participation shall continue until the first to occur of (a) payment in full of all benefits to which the Participant or Beneficiary is entitled under the Plan, or (b) the occurrence of an event specified in Section 3.4 which results in loss of benefits. Except as otherwise specified in the Plan, the Company may not terminate an individual's participation in the Plan.

Section 3.4. Missing Persons. If the Company is unable to locate the Participant or his Beneficiary for purposes of making a distribution, the amount of a Participant's benefits under this Plan that would otherwise be considered as non-forfeitable shall be forfeited effective four (4) years after (a) the last date a payment of said benefit was made, if at least one such payment was made, or (b) the first date a payment of said benefit was directed to be made by the Company pursuant to the terms of the Plan, if no payments had been made. If such person is located after the date of such forfeiture, the benefits for such Participant or Beneficiary shall not be reinstated hereunder.

Section 3.5. Relationship to Other Plans. Participation in the Plan shall not preclude participation of the Participant in any other fringe benefit program or plan sponsored by an Affiliate for which such Participant would otherwise be eligible.

ARTICLE 4. ENTRIES TO THE ACCOUNT.

Section 4.1. Deferrals. If the Participant elects the fixed or variable crediting rate option for measuring the performance of the Account under Section 4.2, the Company shall post to the Account of each Participant on the date the Director's Fees would otherwise be paid the amount of Director's Fees to be deferred as designated by the Participant's Permissible Deferral election in effect for that Plan Year. If the Participant elects the Common Stock crediting rate option for measuring the performance of the Account under Section 4.2, (a) the Company shall post to the Account of such Participant a number of Deferred Compensation Units equivalent to the amount of Director's Fees to be deferred as designated by the Participant's

Permissible Deferral election in effect for than Plan Year; (b) deferrals of Director's Fees (and the corresponding number of Deferred Compensation Units) shall be posted as of the date the Director's Fees would otherwise be paid the amount of Director's Fees to be deferred; and (c) the number of Deferred Compensation Units posted for each calendar month in which Director's Fees would otherwise be paid the amount of Director's Fees to be deferred shall be calculated by dividing: (i) the dollar amount deferred during that month; by (ii) the Closing Price on the first business day of the following calendar month.

Section 4.2. Crediting Rate. Gains or losses shall be posted to the Account in accordance with the Participant's irrevocable election of an investment option which will be a reference for measuring the performance of the Account. The Company intends to measure the performance of the Account in accordance with the Participant's election but reserves the right to do otherwise. The election shall be made concurrently with the Permissible Deferral election. The Participant shall elect one of the following investment options: (i) a fixed rate as described in 4.2.1, (ii) a variable rate as described in 4.2.2, or (iii) a Common Stock crediting rate as described in 4.2.3. A separate irrevocable election shall be made for each Permissible Deferral election.

Section 4.2.1. Fixed Rate. Except as specified in Section 4.2.4, if a Participant elects a fixed rate, the interest will be compounded on a daily basis and posted to the Participant's Account per each pay period at an effective annual yield equal to the rate of ten-year United States Treasury notes. The rate will be determined once each Plan Year and will be the rate in effect as of April 30 of the year prior to the Plan Year to which it applies, as published by Salomon Brothers Inc., or any successor thereto, or as determined by the Chief Financial Officer of the Company.

Section 4.2.2. Variable Rate. Except as specified in Section 4.2.4, if a Participant elects a variable rate, the Participant's Account will be credited or debited as if the Account balance were invested in one or more funds selected by the Company in the proportions elected by the Participant. Statements will be provided on a quarterly basis. Initially the funds will be from the Pruco Variable Appreciable Life Insurance Contracts and include the Common Stock Portfolio, the Aggressively Managed Flexible Portfolio, the Conservatively Managed Flexible Portfolio, the Money Market Portfolio, the Bond Portfolio, the High Yield Bond Portfolio and the Real Property Account. Participants may elect to have their Accounts treated as if they were invested in one or more of the funds selected, provided the election is in at least ten percent (10%) increments of the Account. Participants may change their measuring fund elections up to four (4) times in any calendar year by giving the Committee written notice of such change on a form provided by the Company for that purpose. Upon receipt of such notice, the Committee will effect the change within two (2) business weeks. The Participant's Account will be reduced by the annual administrative charge set forth on Schedule A attached hereto, which may be amended from time to time by the Committee.

Section 4.2.3. Common Stock Crediting Rate. If a Participant elects the Common Stock crediting rate, the

Participant's Account will be valued as if his or her Account were invested in shares of Common Stock equal to the number of Deferred Compensation Units posted to his or her Account. The value of a Participant's Account will vary with the value of the Company's Common Stock. The Participant's Account will be credited, as of the applicable dividend payment date, with additional Deferred Compensation Units equal in value to any dividends declared on the Company's Common Stock based on the number of Deferred Compensation Units posted to the Participant's Account as of the record date with respect to the declaration of such dividend. As of any date of valuation, the value of a Participant's Account will be equal to the value (at the Closing Price on such date) of the number of shares of Common Stock represented by the Deferred Compensation Units credited to the Account as of that date.

Section 4.2.4. Crediting for Smokers. The crediting rate under Sections 4.2.1 and 4.2.2 for Smokers shall be reduced by four tenths of one percent (.4%) annually. The Committee may, in its discretion, waive the reduction required by this Section 4.2.4 for an individual classified as a Smoker with respect to a Permissible Deferral election if the Committee receives a request for such a waiver, on a form provided by the Company for that purpose, from such individual which certifies that he or she has not smoked a cigarette within a twelve (12) month period ending on the date such request is submitted. Such a request may be submitted no sooner than twelve (12) months following the date on which the Permissible Deferral was made.

ARTICLE 5. VESTING.

Participant deferrals are fully vested immediately.

ARTICLE 6. DISTRIBUTION OF BENEFITS.

Section 6.1. Time of Payment. Payments of benefits shall be made by the Company upon the earliest to occur of the following:

(a) the termination, voluntary or involuntary, of the Participant as a Director;

(b) the Participant's death; or

(c) for Participants Age sixty-eight (68) or older on the date on which they first become eligible to participate in the Plan, Age 75.

Except as otherwise provided, benefit payments shall begin no later that six (6) months after the occurrence of the event described in the preceding sentence which results in benefit distribution.

Section 6.2. Form of Benefits Upon Retirement or Attainment of Age 75. For distributions made for reasons other than the death of the Participant, payments from the Account shall be made in accordance with the Standard Form of Benefit. However, the Participant in the Plan Year prior to payment of benefits may petition the Committee for, and the Committee may approve at such time, one of the following forms of benefit:

(a) monthly payment over a five (5) year period; or

(b) a single distribution.

Except for single distributions, benefit payments shall be a level amount for each twelve (12) month period calculated using the balance in the Account at the beginning of the twelve (12) month period and dividing it by the total periods remaining in the entire payment period. The benefit payment shall be adjusted each subsequent twelve (12) month period to reflect the Account as of that time. The Account shall continue to be credited during the payment period with gains and losses as provided in Section 4.2.

Section 6.3. Deferral of Payment. A Participant may elect at the time of each Permissible Deferral election to defer commencement of the payment of benefits with respect to each such Permissible Deferral election as follows:

(a) for Participants Age 65 or older on the date on which they first become eligible to participate in the Plan, commencement of benefits may be deferred until the earlier of (i) five (5) years from the date on which they retire or (ii) Age 75;

(b) for all other Participants, commencement of benefits may be deferred until the earlier of (i) five (5) years from the date on which they retire or (ii) Age 70.

Notwithstanding the preceding sentence, if a Participant elects to defer commencement of benefits pursuant to this Section 6.3, but dies prior to the date on which benefits would commence under such election, benefits shall begin no later than six (6) months after the Participant's death.

Section 6.4. Death Benefits.

6.4.1. Death After Benefit Commencement. In the event a Participant dies after commencement of benefits, the remaining benefit payments, if any, shall be paid to the Participant's Beneficiary in the same manner such benefits would have been paid to the Participant had the Participant survived. A Beneficiary may petition the Committee for an alternative method of payment. The Account shall be credited from the date of the Participant's death at an interest rate set by the Chief Financial Officer of the Company in his discretion, which shall not be less than the rate then payable on Investment Savings Accounts of $1,000 or less at Commerce Bank of Kansas City, Missouri, N.A., or any successor thereto.

6.4.2. Death Prior to Benefit Commencement. In the event a Participant dies prior to the time benefits commence, the Company shall pay a pre-retirement death benefit to the Participant's Beneficiary equal to the Participant's Account as of the date of the Participant's death annuitized over a ten-year period at an interest rate set by the Chief Financial Officer of the Company in his discretion. The pre-retirement death benefit shall be paid monthly for a ten-year period. The Beneficiary may petition the Committee to make a single sum distribution as an alternative method of payment.

6.4.3. Marital Deduction. Any benefits which become payable under this Article 6 to the surviving spouse of a Participant shall be paid in a manner which will qualify such benefits for a marital deduction in the estate of a deceased Participant under the terms of Section 2056 of the Code, and unless specifically directed by a Participant to the contrary pursuant to an effective beneficiary designation, any portion of a Participant's death benefit payable to a surviving spouse which remains unpaid at the death of such spouse shall be paid to the spouse's estate.

6.4.4. Designation by Participant. Each Participant has the right to designate primary and contingent Beneficiaries for death benefits payable under the Plan. Such Beneficiaries may be individuals or trusts for the benefit of individuals. A beneficiary designation by a Participant shall be in writing on a form acceptable to the Committee and shall only be effective upon delivery to the Company. A beneficiary designation may be revoked by a Participant at any time by delivering to the Company either written notice of revocation or a new beneficiary designation form. The beneficiary designation form last delivered to the Company prior to the death of a Participant shall control.

6.4.5. Failure to Designate Beneficiary. In the event there is no beneficiary designation on file with the Company, or all Beneficiaries designated by a Participant have predeceased the Participant, the benefits payable by reason of the death of the Participant shall be paid to the Participant's spouse, if living; if the Participant does not leave a surviving spouse, to the Participant's issue by right of representation; or, if there are no such issue then living, to the Participant's estate. In the event there are benefits remaining unpaid at the death of a sole Beneficiary and no successor Beneficiary has been designated, either by the Participant or the Participant's spouse pursuant to 6.4.3, the remaining balance of such benefit shall be paid to the deceased Beneficiary's estate; or, if the deceased Beneficiary is one of multiple concurrent Beneficiaries, such remaining benefits shall be paid proportionally to the surviving Beneficiaries.

Section 6.5. Claims Procedure. The Committee shall notify a Participant in writing within ninety (90) days of the Participant's written application for benefits of his eligibility or non-eligibility for benefits under the Plan. If the Committee determines that a Participant is not eligible for benefits or full benefits, the notice shall set forth (a) the specific reasons for such denial, (b) a specific reference to the provision of the Plan on which the denial is based, (c) a description of any additional information or material necessary for the claimant to perfect his claim, and a description of why it is needed, and (d) an explanation of the Plan's claims review procedure and other appropriate information as to the steps to be taken if the Participant wishes to have his claim reviewed. If the Committee determines that there are special circumstances requiring additional time to make a decision, the Committee shall notify the Participant of the special circumstances and the date by which a decision is expected to be made, and may extend the time for up to an additional 90-day period. If a Participant is determined by the Committee to be not eligible for benefits, or if the Participant believes that he is entitled to greater or different benefits, he shall have the opportunity to have his claim reviewed by the Committee by filing a petition for review with the Committee within sixty (60) days after receipt by him of the notice issued by the Committee. Said petition shall state the specific reasons the Participant believes he is entitled to benefits or greater or difference benefits. Within sixty (60) days after receipt by the Committee of said petition, the Committee shall afford the Participant (and his counsel, if any) an opportunity to present his position to the Committee orally or in writing, and said Participant (or his counsel) shall have the right to review the pertinent documents, and the Committee shall notify the Participant of its decision in writing within said sixty (60) day period, stating specifically the basis of said decision written in a manner calculated to be understood by the Participant and the specific provisions of the Plan on which the decision is based. If, because of the need for a hearing, the sixty (60) day period is not sufficient, the decision may be deferred for up to another sixty (60) day period at the election of the Committee, but notice of this deferral shall be given to the Participant.

Section 6.6. Alternate Forms of Benefit Distribution. Participants, in the Plan Year prior to payment of benefits may petition the Committee to request methods of benefit distribution other than those provided pursuant to this Article 6.

Section 6.7. Distributions on Plan Termination. Notwithstanding anything in this Article 6 to the contrary, if the Plan is terminated, distributions shall be made in accordance with Section 9.2.

ARTICLE 7. FUNDING

Section 7.1. Sources of Benefits. All benefits under the Plan shall be paid when due by the Company out of its assets or from an irrevocable trust established by the Company for that purpose. The Company may, but shall have no obligations to, make such advance provision for the payment of such benefit as the Board may from time to time consider appropriate.

Section 7.2. No Claim on Specific Assets. No Participant shall be deemed to have, by virtue of being a Participant in the Plan, any claim on any specific assets of the Company such that the Participant would be subject to income taxation on his benefits under the Plan prior to distribution and the rights of Participants and Beneficiaries to benefits to which they are otherwise entitled under the Plan shall be those of an unsecured general creditor of the Company.

ARTICLE 8. ADMINISTRATION AND FINANCES

Section 8.1. Administration. The Plan shall be administered by the Committee. The Company shall bear all administrative costs of the Plan other than those specifically charged to a Participant or Beneficiary.

Section 8.2. Powers of Committee. In addition to the other powers granted under the Plan, the Committee shall have all powers necessary to administer the Plan, including, without limitation, powers:

(a) to interpret the provisions of the Plan;

(b) to establish and revise the method of accounting for the Plan and to maintain the Accounts; and

(c) to establish rules for the administration of the Plan and to prescribe any forms required to administer the Plan.

Not in limitation, but in amplification of the foregoing and of the authority conferred upon the Committee in Section 8.1, the Company specifically intends that the Committee have the greatest permissible discretion to construe the terms of the Plan and to determine all questions concerning eligibility, participation and benefits. Any such decision made by the Committee is intended to be subject to the most deferential standard of judicial review. Such standard of review is not to be effected by any real or alleged conflict of interest on the part of the Company or any member of the Committee.

Section 8.3. Actions of the Committee. Except as modified by the Company, all determinations, interpretations, rules, and decisions of the Committee shall be conclusive and binding upon all persons having or claiming to have any interest or right under the Plan.

Section 8.4. Delegation. The Committee, or any officer designated by the Committee, shall have the power to delegate specific duties and responsibilities to officers or other employees of the Company or other individuals or entities. Any delegation may be rescinded by the Committee at any time. Each person or entity to whom a duty or responsibility has been delegated shall be responsible for the exercise of such duty or responsibility and shall not be responsible for any act or failure to act of any other person or entity.

Section 8.5. Reports and Records. The Committee and those to whom the Committee has delegated duties under the Plan shall keep records of all their proceedings and actions and shall maintain books of account, records, and other data as shall be necessary for the proper administration of the Plan and for compliance with applicable law.

ARTICLE 9. AMENDMENTS AND TERMINATION

Section 9.1. Amendments. The Company, by action of the Board, may amend the Plan, in whole or in part, at any time and from time to time. Any such amendment shall be filed with the Plan documents. No amendment, however, may be effective to eliminate or reduce the benefits of any retired Participant or the Beneficiary of any deceased Participant then eligible for benefits or the benefits, if any, in any active Participant's Account immediately before the effective date of such amendment, and each such Account will be credited to the date of such amendment in accordance with Section 4.2. Notwithstanding anything in this Section 9.1 to the contrary, the Committee may, in its discretion, amend the Plan to reduce the rates set forth in Section 4.2 for crediting the Accounts of active Participants effective for crediting from the date of any such amendment.

Section 9.2. Termination. The Company expects the Plan to be permanent, but necessarily must, and hereby does, reserve the right to terminate the Plan at any time by written action of the Board. In all events, the Plan will be terminated if the existence of a trust causes a federal court to hold that the Plan is "funded" for ERISA purposes, as defined in Section 2.02-4 of the Trust, and appeals from that holding are no longer timely or have been exhausted, and the trust is therefore terminated with respect to the Plan. Upon termination of the Plan, all deferrals will cease and no future deferrals will be made. Termination of the Plan shall not operate to eliminate or reduce benefits of any retired Participant or the Beneficiary of any deceased Participant then eligible for benefits or the benefits, if any, in any active Participant's Account immediately before the effective date of such termination, and each such Account will be credited, to the date of distribution of all benefits in such

Account, in accordance with Section 4.2, as it may be amended from time to time pursuant to Section 9.1.

If the Plan shall at any time be terminated, payments from the Accounts of all Participants and Beneficiaries shall be made as soon as administratively convenient in the form of monthly payments over a five (5) year period; however, the Committee in its sole discretion may pay the benefits in a lump sum. Notwithstanding the preceding sentence, if the termination occurs because the Plan is held to be "funded" as described in the first paragraph of this Section 9.2, the distribution will be paid in a lump sum not later than ninety (90) days after such termination.

ARTICLE 10. MISCELLANEOUS

Section 10.1 No Guarantee of Membership. Neither the adoption and maintenance of the Plan nor the execution by the Company of a Permissible Deferral agreement with any Director shall be deemed to be a contract between the Company and any Participant to retain his or her position as a Director.

Section 10.2. Individual Account Plan. If it is determined that the Plan is not an unfunded plan maintained primarily for a select group of management or highly compensated employees as described in Sections 201(2), 301(a)(3) and 401(a)(1) of ERISA, then the Plan is intended to be an individual account plan (other than a money purchase plan) as described in Section 301(a)(8) of ERISA.

Section 10.3. Release. Any payment of benefits to or for the benefit of a Participant or a Participant's Beneficiaries that is made in good faith by the Company in accordance with the Company's interpretation of its obligations hereunder, shall be in full satisfaction of all claims against the Company for benefits under this Plan to the extent of such payment.

Section 10.4. Notices. Any notice permitted or required under the Plan shall be in writing and shall be hand delivered or sent, postage prepaid, certified or registered mail with return receipt requested, to the principal office of the Company, if to the Company, or to the address last shown on the records of the Company, if to a Participant or Beneficiary. Any such notice shall be effective as of the date of hand delivery or mailing.

Section 10.5. Non-Alienation. No benefit payable at any time under this Plan shall be subject in any manner to alienation, sale, transfer, assignment, pledge, levy, attachment, or encumbrance of any kind.

Section 10.6. Tax Liability. The Company may direct the trustee of the Trust to withhold from any payment of benefits under the Plan such amounts as the Company determines are reasonably necessary to pay any taxes (and interest thereon) required to be withheld or for which the trustee of the Trust may become liable under applicable law. The Company may also direct the trustee of the Trust to forward to the appropriate taxing authority any amounts required to be paid by the Company or the Trust under the preceding sentence. Any amounts withheld pursuant to this Section 10.6 in excess of the amount of taxes due (and interest thereon) shall be paid to the Participant or Beneficiary upon final determination, as determined by the Company, of such amount. No interest shall be payable by the Company to any Participant or Beneficiary by reason of any amounts withheld pursuant to this Section 10.6.

Section 10.7. Captions. Article and section headings and captions are provided for purposes of reference and convenience only and shall not be relied upon in any way to construe, define, modify, limit, or extend the scope of any provision of the Plan.

Section 10.8. Applicable Law. The Plan and all rights hereunder shall be governed by and construed according to the laws of the State of Missouri, except to the extent such laws are preempted by the laws of the United States of America.

Schedule A - Annual Administrative Charges

Portfolio Gross Crediting Rate	Annual Administrative Charge
Up to 9.99%	1.40%
10.00% to 11.99%	1.00%
12.00% and above	0.00%

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