

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended January 31, 1999

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

Commission file number 1-6089

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

MISSOURI
(State or other jurisdiction of
incorporation or organization)

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

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

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

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

Yes No
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The number of shares outstanding of the registrant's Common Stock, without par
value, at March 1, 1999 was 97,188,921 shares.

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

	January 31, 1999 ----	April 30, 1998 ----
	(Unaudited)	(Audited)
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 188,340	\$ 900,856
Marketable securities	91,582	346,158
Receivables, less allowance for doubtful accounts of \$21,302 and \$45,314	896,363	793,237
Prepaid expenses and other current assets	94,477	48,944
	-----	-----
TOTAL CURRENT ASSETS	1,270,762	2,089,195
INVESTMENTS AND OTHER ASSETS		
Investments in marketable securities	221,069	343,178
Excess of cost over fair value of net tangible assets acquired, net of accumulated amortization	355,987	288,580
Other	127,084	105,809
	-----	-----
	704,140	737,567
PROPERTY AND EQUIPMENT, at cost less accumulated depreciation and amortization	100,597	77,321
	-----	-----
	\$2,075,499	\$2,904,083
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Notes payable	\$ 805,985	\$ 643,002
Accounts payable, accrued expenses and deposits	135,394	114,875
Accrued salaries, wages and payroll taxes	55,229	96,168
Accrued taxes on earnings	26,648	422,847
	-----	-----
TOTAL CURRENT LIABILITIES	1,023,256	1,276,892
LONG-TERM DEBT	249,692	249,675
OTHER NONCURRENT LIABILITIES	43,269	35,884
STOCKHOLDERS' EQUITY		
Common stock, no par, stated value \$.01 per share	1,089	1,089
Additional paid-in capital	411,428	432,335
Retained earnings	857,837	1,010,545
Accumulated other comprehensive income (loss)	(27,017)	(24,515)
	-----	-----
	1,243,337	1,419,454
Less cost of 11,751,531 and 1,992,043 shares of common stock in treasury	484,055	77,822
	-----	-----

	759,282	1,341,632
	-----	-----
	\$2,075,499	\$2,904,083
	=====	=====

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	
	January 31,	
	1999	1998
	----	----
REVENUES		
Service revenues	\$213,156	\$151,185
Product revenues	60,110	36,176
Royalties	12,961	10,562
Other	5,255	853
	-----	-----
	291,482	198,776
	-----	-----
OPERATING EXPENSES		
Employee compensation and benefits	124,718	93,703
Occupancy and equipment	54,829	48,796
Interest	23,689	12,371
Marketing and advertising	17,824	13,978
Supplies, freight and postage	22,616	16,077
Other	56,156	38,872
	-----	-----
	299,832	223,797
	-----	-----
Operating loss	(8,350)	(25,021)
OTHER INCOME		
Investment income, net	4,641	1,107
Other, net	(879)	(17)
	-----	-----
	3,762	1,090
Loss from continuing operations before income tax benefit	(4,588)	(23,931)
Income tax benefit	(1,743)	(9,094)
	-----	-----
Net loss from continuing operations	(2,845)	(14,837)
Net loss from discontinued operations (less applicable income tax benefit of (\$175) and (\$663))	(273)	(2,452)
Net gain (loss) from sale of discontinued operations (less applicable income taxes (benefit) of (\$12,773) and \$251,701)	(19,978)	231,867
	-----	-----
Net earnings (loss)	\$ (23,096)	\$214,578
	=====	=====
Weighted average number of common shares outstanding	97,481	105,050
	=====	=====
Basic and diluted net loss per share from continuing operations	\$ (.03)	\$ (.14)
	=====	=====
Basic and diluted net earnings (loss) per share	\$ (.24)	\$ 2.04
	=====	=====
Dividends per share	\$.25	\$.20
	=====	=====

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

	Nine Months Ended	
	January 31,	
	1999	1998
	----	----
REVENUES		
Service revenues	\$ 308,466	\$ 219,426
Product revenues	111,906	64,388
Royalties	17,023	14,980
Other	10,273	3,596
	447,668	302,390
OPERATING EXPENSES		
Employee compensation and benefits	216,711	162,546
Occupancy and equipment	137,058	122,012
Interest	53,889	26,819
Marketing and advertising	30,088	24,646
Supplies, freight and postage	31,230	23,794
Other	103,602	73,587
	572,578	433,404
Operating loss	(124,910)	(131,014)
OTHER INCOME		
Investment income, net	28,177	9,490
Other, net	(879)	(5)
	27,298	9,485
Loss from continuing operations before income tax benefit	(97,612)	(121,529)
Income tax benefit	(37,072)	(46,181)
Net loss from continuing operations	(60,540)	(75,348)
Net loss from discontinued operations (less applicable income tax benefit of (\$953) and (\$11,823))	(1,490)	(21,307)
Net gain (loss) from sale of discontinued operations (less applicable income taxes (benefit) of (\$12,773) and \$251,701)	(19,978)	231,867
Net earnings (loss)	\$ (82,008)	\$ 135,212
	=====	=====
Weighted average number of common shares outstanding	100,526	104,568
	=====	=====
Basic and diluted net loss per share from continuing operations	\$ (.60)	\$ (.72)
	=====	=====
Basic and diluted net earnings (loss) per share	\$ (.82)	\$ 1.29
	=====	=====
Dividends per share	\$.70	\$.60
	=====	=====

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

	Nine Months Ended	
	January 31,	
	1999	1998
	----	----
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net earnings (loss)	\$ (82,008)	\$ 135,212
Adjustments to reconcile net earnings (loss) to net cash used in operating activities:		
Depreciation and amortization	45,066	34,637
Net (gain) loss on sale of discontinued operations	19,978	(231,867)
Other noncurrent liabilities	7,385	2,480
Changes in:		
Receivables	(232,429)	82,717
Prepaid expenses and other current assets	(45,533)	(44,304)
Net assets of discontinued operations	-	13,665
Accounts payable, accrued expenses and deposits	18,477	(64,385)
Accrued salaries, wages and payroll taxes	(40,939)	(65,796)
Accrued taxes on earnings	(385,928)	(123,339)
	-----	-----
NET CASH USED IN OPERATING ACTIVITIES	(695,931)	(260,980)
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of marketable securities	(227,381)	(133,774)
Maturities of marketable securities	709,106	202,473
Purchases of property and equipment	(52,365)	(30,633)
Excess of cost over fair value of net tangible assets acquired, net of cash acquired	(83,048)	(237,786)
Other, net	(28,040)	(14,283)
	-----	-----
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	318,272	(214,003)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayments of notes payable	(7,301,430)	(8,499,105)
Proceeds from issuance of notes payable	7,464,413	8,405,163
Proceeds from issuance of long-term debt	-	249,663
Dividends paid	(70,700)	(62,676)
Payments to acquire treasury shares	(490,868)	-
Proceeds from stock options exercised	63,728	32,416
	-----	-----
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	(334,857)	125,461
	-----	-----
NET DECREASE IN CASH AND CASH EQUIVALENTS	(712,516)	(349,522)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	900,856	457,079
	-----	-----
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	\$ 188,340	\$ 107,557
	=====	=====
SUPPLEMENTAL CASH FLOW DISCLOSURES:		
Income taxes paid	\$ 360,959	\$ 58,746
Interest paid	59,392	35,492

See Notes to Consolidated Financial Statements

1. The Consolidated Balance Sheet as of January 31, 1999, the Consolidated Statements of Operations for the three and nine months ended January 31, 1999 and 1998, and the Consolidated Statements of Cash Flows for the nine months ended January 31, 1999 and 1998 have been prepared by the Company, without audit. In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position, results of operations and cash flows at January 31, 1999 and for all periods presented have been made.

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

Principles of consolidation: The consolidated financial statements include the accounts of the Company, all majority-owned subsidiaries and companies that are directly or indirectly controlled by the Company through majority ownership or otherwise.

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, 1998 Annual Report to Shareholders.

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

2. On January 29, 1999, the Company completed the sale of its WebCard Visa portfolio. The Company recorded a \$20.0 million loss, net of taxes, on the transaction. The \$127.6 million receivable for the sale of the portfolio was treated as a noncash investing activity in the Consolidated Statement of Cash Flows for the nine months ended January 31, 1999. The Consolidated Statements of Operations for the three and nine months ended January 31, 1999 and 1998 have been reclassified to reflect the Company's Credit Card operations segment as discontinued operations.
3. On January 31, 1998, the Company completed the sale of all of its interest in CompuServe Corporation (CompuServe) to a subsidiary of WorldCom, Inc. (WorldCom). The Consolidated Statements of Operations for the three and nine months ended January 31, 1998 and the Consolidated Statement of Cash Flows for the nine months ended January 31, 1998 reflect CompuServe as discontinued operations.

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4. Revenues from discontinued operations for the nine months ended January 31, 1999 and 1998 were \$24.1 million and \$657.2 million, respectively. Revenues for the three months ended January 31, 1999 and 1998 were \$7.8 million and \$227.2 million, respectively.

5. Receivables consist of the following:

	January 31, ----- 1999 ----	April 30, ----- 1998 ---- (Audited)
Mortgage loans held for sale	\$387,500	\$448,102
Participation in refund anticipation loans	201,890	39,165
Receivable from sale of discontinued operations	127,639	-
Credit card loans	-	202,852
Other	200,636	148,432
	-----	-----

	917,665	838,551
Allowance for doubtful accounts	21,302	45,314
	-----	-----
	\$896,363	\$793,237
	=====	=====

6. 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.
7. The Company securitized \$1.7 billion in mortgage loans during the nine months ended January 1999. The retained interests from the securitizations of \$104.3 million were treated as noncash investing activities in the Consolidated Statement of Cash Flows for the nine months ended January 31, 1999.
8. Basic and diluted net earnings (loss) per share is computed using the weighted average number of shares outstanding during each period. Diluted net loss per share excludes the impact of common stock options outstanding of 5,884,733 shares and the conversion of 712 shares of preferred stock to common stock, as they are antidilutive. The weighted average shares outstanding for the nine months ended decreased to 100,526,000 from 104,568,000 last year, due to the purchase of treasury shares by the Company during the period from February 1998 to January 1999. The decrease was partially offset by stock option exercises during fiscal 1998 and 1999.
9. During the nine months ended January 31, 1999 and 1998, the Company issued 1,996,012 and 1,025,326 shares, respectively, pursuant to provisions for exercise of stock options under its stock option plans. During the nine months ended January 31, 1999, the Company acquired 11,792,500 shares of its common stock at an aggregate cost of \$490,868.
10. CompuServe, certain current and former officers and directors of CompuServe and the registrant have been named as defendants in six lawsuits pending before the state and Federal courts in Columbus, Ohio. All suits allege similar violations of the Securities Act of 1933 based on assertions of omissions and misstatements of fact in connection with CompuServe's public filings related to its initial public offering in April 1996. One state lawsuit also alleges certain oral omissions and misstatements in connection with such offering. Relief sought in the

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lawsuits is unspecified, but includes pleas for rescission and damages. One Federal lawsuit names the lead underwriters of CompuServe's initial public offering as additional defendants and as representatives of a defendant class consisting of all underwriters who participated in such offering. The Federal suits were consolidated, the defendants filed a motion to dismiss the consolidated suits, the district court stayed all proceedings pending the outcome of the state court suits, and the United States Court of Appeals for the Sixth Circuit affirmed such stay. The four state court lawsuits also allege violations of various state statutes and common law of negligent misrepresentation in addition to the 1933 Act claims. The state lawsuits were consolidated for discovery purposes and defendants filed a motion for summary judgment covering all four state lawsuits. In the state lawsuits, the court entered an order in July 1998 that the suits entitled Harvey Greenfield v. CompuServe Corporation, et al., Jeffrey Schnipper v. CompuServe Corporation, and Philip Silverglate v. CompuServe Corporation, et al. be maintained as a class action on behalf of the following class:

"All persons and entities who purchased shares of common stock of CompuServe Corporation between April 18, 1996 pursuant to the CompuServe's initial public offering or on the open market and July 16, 1996, and who were damaged thereby. All named defendants to these consolidated actions, members of their immediate families, any entity in which they have a controlling interest, and their legal representatives, heirs, successors or assigns are excluded from the class."

Plaintiffs Greenfield, Schnipper and Silverglate were designated as class representatives. The Florida State Board of Administration v. CompuServe

Corporation, et al. case pending in state court was not included in the class certification order as the plaintiff in such case did not seek class certification of its action. As a part of the sale of its interest in CompuServe, the Company agreed to indemnify WorldCom and CompuServe against 80.1% of any losses and expenses incurred by them with respect to these lawsuits. The defendants are vigorously defending these lawsuits.

11. Summarized financial information for Block Financial Corporation, an indirect, wholly owned subsidiary of the Company, is presented below.

	January 31, ----- 1999 ----	April 30, ----- 1998 ---- (Audited)
Condensed balance sheets:		
Cash and cash equivalents	\$ 48,724	\$ 30,895
Finance receivables, net	659,658	737,005
Other assets	558,536	311,759
	-----	-----
Total assets	\$1,266,918 =====	\$1,079,659 =====
Commercial paper	\$ 804,672	\$ 643,002
Long-term debt	249,692	249,675
Other liabilities	77,032	57,372
Stockholder's equity	135,522	129,610
	-----	-----
Total liabilities and stockholder's equity	\$1,266,918 =====	\$1,079,659 =====

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	Three months ended ----- January 31, ----- 1999 1998 ----		Nine months ended ----- January 31, ----- 1999 1998 ----	
Condensed statements of operations:				
Revenues	\$110,472	\$59,648	\$217,699	\$115,104
Earnings from continuing operations	19,904	7,960	35,357	11,497
Net earnings (loss)	(8,026)	2,291	233	(297)

12. The Company sells short treasury securities under an open repurchase agreement that can be adjusted at any time by either party. The position on certain or all of the fixed rate mortgages is closed when the Company enters into a forward commitment to sell those mortgages. The effectiveness of the hedge is measured by a historical and probable future high correlation of changes in the fair value of the hedging instruments with changes in value of the hedged item. If correlation ceases to exist, hedge accounting will be terminated and gains or losses are recorded in revenues. During the second quarter of fiscal 1999, the Company's short treasury securities no longer correlated with the hedged item and, therefore, the hedge was terminated. A loss of \$2.5 million was recognized upon termination in the second quarter. At January 31, 1999, the Company had no hedging instruments in place.

13. The Company adopted Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income" (SFAS 130) in the first quarter of fiscal 1999. SFAS 130 requires that all changes in equity during the period, except those resulting from investments by and distributions to owners, be reported as "comprehensive income" in the financial statements. The Company's comprehensive income is comprised of net earnings (loss), foreign currency translation adjustments and the change in the net unrealized gain or loss on marketable securities. The adoption of SFAS 130 had no effect on the Company's consolidated financial statements. The components of comprehensive income (loss) during the three and nine months ended January 31, 1999 and 1998 were:

	Three months ended		Nine months ended	
	January 31,		January 31,	
	1999	1998	1999	1998
	----	----	----	----
Net earnings (loss)	\$ (23,096)	\$ 214,578	\$ (82,008)	\$ 135,212
Change in net unrealized gain (loss) on mkt. securities	2,113	226	3,945	121
Change in foreign currency translation adjustments	2,458	(5,813)	(6,447)	(7,082)
	-----	-----	-----	-----
Comprehensive income (loss)	\$ (18,525)	\$ 208,991	\$ (84,510)	\$ 128,251
	=====	=====	=====	=====

14. In the third quarter of fiscal 1999, the Company elected early adoption of Statement of Financial Accounting Standards No. 134, "Accounting for Mortgage-Backed Securities Retained after the Securitization of Mortgage Loans Held for Sale by a Mortgage Banking Enterprise" (SFAS 134). SFAS 134 requires that mortgage-backed securities or other interests retained after a securitization be classified based on the intent to sell or hold the

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investments. The Company has classified its retained interests as available-for-sale securities, which are included in Investments in marketable securities on the Consolidated Balance Sheet.

15. In the first quarter of fiscal year 1999, the Company acquired operations that management determined to be a new reportable operating segment. The new segment, Business services, is primarily engaged in providing accounting, tax and consulting services to business clients and tax, estate planning and financial planning services to individuals. The Business services segment currently offers its services through regional accounting firms based in Kansas City, Missouri; Chicago, Illinois; Indianapolis, Indiana; Buffalo, New York and Dallas, Texas. Revenues of this segment are seasonal in nature, with peak revenues occurring during January through April.

Information concerning the Company's operations by reportable operating segments for the three and nine months ended January 31, 1999 and 1998 is as follows:

	Three months ended		Nine months ended	
	January 31,		January 31,	
	1999	1998	1999	1998
	-----	-----	-----	-----

	----	----	----	----
Revenues:				
U.S. tax operations	\$189,083	\$152,773	\$ 219,662	\$ 181,912
International tax operations	6,776	7,371	22,030	24,221
Mortgage operations	79,333	37,522	184,926	93,039
Business services	15,271	-	18,135	-
Unallocated corporate	1,019	1,110	2,915	3,218
	-----	-----	-----	-----
	\$291,482	\$198,776	\$ 447,668	\$ 302,390
	=====	=====	=====	=====
Earnings (loss) from continuing operations:				
U.S. tax operations	\$(18,845)	\$(19,050)	\$(137,977)	\$(123,233)
International tax operations	(7,508)	(6,925)	(15,742)	(13,174)
Mortgage operations	24,305	7,682	48,630	19,756
Business services	(8)	-	(220)	-
Unallocated corporate	(2,735)	(2,314)	(7,161)	(5,029)
Interest exp. on LT debt	(4,438)	(4,431)	(13,319)	(9,339)
Investment income, net	4,641	1,107	28,177	9,490
	-----	-----	-----	-----
Loss from continuing operations before income tax benefit	\$ (4,588)	\$ (23,931)	\$ (97,612)	\$ (121,529)
	=====	=====	=====	=====

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

EXCEPT FOR HISTORICAL INFORMATION CONTAINED HEREIN, THE MATTERS ADDRESSED IN THIS DISCUSSION ARE FORWARD-LOOKING STATEMENTS THAT ARE SUBJECT TO RISKS AND UNCERTAINTIES, WHICH COULD CAUSE ACTUAL RESULTS TO DIFFER MATERIALLY. SUCH RISKS AND UNCERTAINTIES INCLUDE, BUT ARE NOT LIMITED TO, YEAR 2000 READINESS OF THE COMPANY, ITS FRANCHISEES OR THIRD PARTIES; AND ECONOMIC, COMPETITIVE, GOVERNMENTAL AND VARIOUS OTHER FACTORS AFFECTING THE COMPANY'S OPERATIONS, MARKETS, PRODUCTS, SERVICES AND PRICES.

FINANCIAL CONDITION

These comments should be read in conjunction with the Consolidated Balance Sheets and Consolidated Statements of Cash Flows found on pages 1 and 4, respectively.

Working capital decreased to \$247.5 million at January 31, 1999 from \$812.3 million at April 30, 1998. The working capital ratio at January 31, 1999 is 1.2 to 1, compared to 1.6 to 1 at April 30, 1998. The decrease in working capital and the working capital ratio is primarily due to the repurchase of treasury shares and, to a lesser extent, the seasonal nature of the Company's U.S. tax operations segment. 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 maintains seasonal lines of credit to support short-term borrowing facilities in the United States and Canada. The credit limits of these lines fluctuate according to the amount of short-term borrowings outstanding during the year.

The Company incurs short-term borrowings throughout the year to fund receivables associated with its nonconforming mortgage loan and other financial services programs. These short-term borrowings in the U.S. are supported by a \$1.85 billion back-up credit facility through November 1999, subject to renewal.

The Company's capital expenditures, treasury share purchases and dividend payments during the first nine months were funded through internally-generated funds.

At January 31, 1999, short-term borrowings used to fund mortgage loans and other programs increased to \$806.0 million from \$643.0 million at April 30, 1998 due mainly to the funding of mortgage operations. For the nine months ended January 31, 1999 and 1998, interest expense was \$53.9 million and \$26.9 million, respectively. The increase in interest expense is primarily attributable to the funding of mortgage operations with short-term borrowings and the debt incurred to fund the acquisition of Option One Mortgage Corporation (Option One) in June 1997.

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The Company announced in December 1993 its intention to repurchase from time to time up to 10 million of its shares on the open market. In July 1996, the Company announced its intention to repurchase up to 10 million additional shares in the open market over a two-year period following the separation of CompuServe Corporation. At January 31, 1999, 17.0 million shares had been repurchased. The Company plans to continue to purchase its shares on the open market in accordance with these authorizations, subject to various factors including the price of the stock, availability of excess cash, the ability to maintain financial flexibility, securities laws restrictions and other investment opportunities available.

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RESULTS OF OPERATIONS

FISCAL 1999 COMPARED TO FISCAL 1998

The analysis that follows should be read in conjunction with the table below and the Consolidated Statements of Operations found on pages 2 and 3.

THREE MONTHS ENDED JANUARY 31, 1999 COMPARED TO

THREE MONTHS ENDED JANUARY 31, 1998

(amounts in thousands)

	Revenues		Earnings (loss)	
	1999	1998	1999	1998
U.S. tax operations	\$189,083	\$152,773	\$(18,845)	\$(19,050)
International tax operations	6,776	7,371	(7,508)	(6,925)
Mortgage operations	79,333	37,522	24,305	7,682
Business services	15,271	-	(8)	-
Unallocated corporate	1,019	1,110	(2,735)	(2,314)
Interest expense on LT debt	-	-	(4,438)	(4,431)
Investment income, net	-	-	4,641	1,107
	=====	=====	-----	-----
	\$291,482	\$198,776	(4,588)	(23,931)
	=====	=====	-----	-----
Income tax benefit			(1,743)	(9,094)

Net loss from continuing operations	(2,845)	(14,837)
Net loss from discontinued operations	(273)	(2,452)
Net gain (loss) on sale of discontinued operations	(19,978)	231,867
	-----	-----
Net earnings (loss)	\$ (23,096)	\$ 214,578
	=====	=====

Consolidated revenues for the three months ended January 31, 1999 increased 46.6% to \$291.5 million from \$198.8 million reported last year. The increase is primarily due to revenues from Mortgage operations of \$79.3 million, a 111.4% increase over last year and U.S. tax operations, a 23.8% increase. The new Business services segment, acquired in May 1998, also contributed \$15.3 million to the increase.

The consolidated pretax loss from continuing operations for the third quarter of fiscal 1999 decreased to \$4.6 million from \$23.9 million in the third quarter of last year. The decrease is attributable to increased earnings from Mortgage operations and higher investment income.

The net loss from continuing operations was \$2.8 million, or \$.03 per share, compared to \$14.8 million, or \$.14 per share, for the same period last year.

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An analysis of operations by reportable operating segments follows.

U.S. TAX OPERATIONS

Revenues increased 23.8% to \$189.1 million from \$152.8 million last year, resulting primarily from increased revenues from tax-related services that are attributable to an increase in the number of clients served and price increases. During the first month of the U.S. tax-filing season, the number of clients served in company-owned offices increased 4.8%. Improved software sales and revenues from Refund Anticipation Loan (RAL) participations also contributed to the increase.

The pretax loss decreased 1.1% to \$18.8 million from \$19.1 million in the third quarter of last year due to the strong increase in revenues. The increase in revenues completely offset the increase in expenses over the prior year. The increase in expenses is attributable to normal increases in compensation and benefits related to tax services, a more conservative loss reserve related to RAL participations than in the same period last year and an increase in the number of tax offices. Due to the nature of this segment's business, the results for the first month of the tax-filing season are not necessarily indicative of expected results for the entire tax season.

INTERNATIONAL TAX OPERATIONS

Revenues decreased 8.1% to \$6.8 million compared to \$7.4 million in the prior year's third quarter. The decrease is principally attributable to increased competitive conditions related to discounted returns and a slower start to the Canadian tax-filing season. The number of regular and discounted returns prepared in company-owned offices in Canada during the month of January decreased 27.5% from the prior year. The decline in Canada was partially offset by increased revenues in Australia.

The pretax loss increased 8.4% to \$7.5 million from \$6.9 million last year. The increase is due to compensation and other facility-related expenses in Canada primarily attributable to normal operational increases and an increase in the number of tax offices, as well as decreased revenues. Due to the nature of this segment's business, third quarter operating results are not indicative of expected results for the entire fiscal year.

MORTGAGE OPERATIONS

Revenues increased 111.4% to \$79.3 million from \$37.5 million in the same period last year. The increase is attributable to a higher volume of loans sold or

securitized and increased interest income over the prior year. Option One originated and sold or securitized \$930.2 million and \$1.3 billion in loans, respectively, during the third quarter of fiscal 1999, compared to \$507.0 million originated and \$466.0 million sold in the third quarter last year. Both Option One and Companion Mortgage had higher interest income earned related to higher balances of mortgage loans held for sale during the quarter.

Mortgage operations pretax earnings of \$24.3 million increased 216.4% this year compared to \$7.7 million during the third quarter of fiscal 1998, driven entirely by the increase in revenues. Increases in compensation and benefits and marketing and advertising expense had a negative impact on pretax earnings due primarily to the continued expansion of Option One's operations.

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BUSINESS SERVICES

Business services is a new reportable operating segment for fiscal year 1999. Business services contributed revenues of \$15.3 million and a pretax loss of \$8 thousand for the third quarter of fiscal 1999, including goodwill amortization of \$1.1 million. Due to the nature of this segment's business, revenues are seasonal, while expenses are relatively fixed throughout the year. Results for the third quarter are not indicative of the expected results for the entire year.

INVESTMENT INCOME, NET

Net investment income increased 319.2% to \$4.6 million from \$1.1 million last year. The increase is due to additional funds available for investment resulting from the proceeds of the monetization of WorldCom, Inc. stock during fiscal 1998.

UNALLOCATED CORPORATE AND ADMINISTRATIVE

The unallocated corporate and administrative pretax loss for the third quarter increased 18.2% to \$2.7 million from \$2.3 million in the comparable period last year. The increase is a result of higher employee costs.

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THREE MONTHS ENDED JANUARY 31, 1999 (THIRD QUARTER) COMPARED TO

THREE MONTHS ENDED OCTOBER 31, 1998 (SECOND QUARTER)

(amounts in thousands)

	Revenues		Earnings (loss)	
	3rd Qtr	2nd Qtr	3rd Qtr	2nd Qtr
U.S. tax operations	\$189,083	\$18,400	\$(18,845)	\$(61,316)
International tax operations	6,776	11,817	(7,508)	(2,263)
Mortgage operations	79,333	52,888	24,305	10,538
Business services	15,271	1,534	(8)	(98)
Unallocated corporate	1,019	974	(2,735)	(2,318)
Interest expense on LT debt	-	-	(4,438)	(4,438)
Investment income, net	-	-	4,641	9,646

	----- \$291,482 =====	----- \$85,613 =====	----- (4,588)	----- (50,249)
Income tax benefit			(1,743)	(19,094)
Net loss from continuing operations			(2,845)	(31,155)
Net loss from discontinued operations			(273)	(18)
Net loss on sale of discontinued operations			(19,978)	-
Net loss			\$ (23,096)	\$ (31,173)

Consolidated revenues for the three months ended January 31, 1999 increased 240.5% to \$291.5 million from \$85.6 million reported in the second quarter of fiscal 1999. The increase is primarily due to revenues from U.S. tax operations related to the beginning of the U.S. tax-filing season, as well as increased revenues from Mortgage operations and Business services.

The consolidated pretax loss from continuing operations for the third quarter of fiscal 1999 decreased to \$4.6 million from \$50.2 million in the second quarter of this year. The decrease is attributable to U.S. tax operations, which incurred a pretax loss of \$18.8 million this quarter compared to a pretax loss of \$61.3 million in the second quarter, and improved results from Mortgage operations.

The net loss from continuing operations was \$2.8 million, or \$.03 per share, compared to \$31.2 million, or \$.31 per share, for the second quarter.

An analysis of operations by reportable operating segments follows.

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U.S. TAX OPERATIONS

Revenues increased 927.6% to \$189.1 million from \$18.4 million in the second quarter. The pretax loss decreased 69.3% to \$18.8 million from \$61.3 million in the three months ended October 31, 1998. The improved results are due to the onset of the U.S. tax-filing season.

INTERNATIONAL TAX OPERATIONS

Revenues decreased 42.7% to \$6.8 million compared to the second quarter revenues of \$11.8 million. The pretax loss increased 231.8% to \$7.5 million from \$2.3 million in the second quarter. The decreased results are due to the timing of the tax-filing seasons in Australia and Canada. The Australian tax season ends in October while the Canada tax season begins in late January.

MORTGAGE OPERATIONS

Revenues increased 50.0% to \$79.3 million from \$52.9 million in the prior quarter. Pretax earnings increased 130.6% to \$24.3 million from \$10.5 million in the three months ended October 31, 1998. The improved results are due to the timing of loan sales, increased interest income earned on higher loan balances and a one-time loss of \$2.5 million on the termination of a hedging instrument incurred during the second quarter. The increased earnings were partially reduced by increases in compensation and benefits expenses. Option One sold or securitized \$1.3 billion in loans in the current quarter compared to \$539.6 million in the second quarter.

BUSINESS SERVICES

Business services is a new reportable operating segment for fiscal year 1999. Revenues increased 895.5% to \$15.3 million from \$1.5 million in the three months

ended October 31, 1998. The pretax loss decreased 91.8% to \$8 thousand from \$98 thousand in the prior quarter. The improved results are due to acquisitions made during the third quarter and the onset of the accounting firms' tax and accounting season.

INVESTMENT INCOME, NET

Net investment income decreased 51.9% to \$4.6 million from \$9.6 million in the second quarter of fiscal 1999. The decrease resulted from less funds available for investment due to the purchase of treasury shares.

UNALLOCATED CORPORATE AND ADMINISTRATIVE

The unallocated corporate and administrative pretax loss for the third quarter increased 18.0% to \$2.7 million from \$2.3 million in the second quarter. The increase is due to higher charitable contributions, employee costs and consultant fees. Improved results at the Company's captive insurance subsidiary partially offset the increased loss.

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NINE MONTHS ENDED JANUARY 31, 1999 COMPARED TO

NINE MONTHS ENDED JANUARY 31, 1998

(amounts in thousands)

	Revenues		Earnings (loss)	
	1999	1998	1999	1998
U.S. tax operations	\$219,662	\$181,912	\$(137,977)	\$(123,233)
International tax operations	22,030	24,221	(15,742)	(13,174)
Mortgage operations	184,926	93,039	48,630	19,756
Business services	18,135	-	(220)	-
Unallocated corporate	2,915	3,218	(7,161)	(5,029)
Interest expense on LT debt	-	-	(13,319)	(9,339)
Investment income, net	-	-	28,177	9,490
	=====	=====	-----	-----
	\$447,668	\$302,390	(97,612)	(121,529)
	=====	=====	-----	-----
Income tax benefit			(37,072)	(46,181)
			-----	-----
Net loss from continuing operations			(60,540)	(75,348)
Net loss from discontinued operations			(1,490)	(21,307)
Net gain (loss) on sale of discontinued operations			(19,978)	231,867
			-----	-----
Net earnings (loss)			\$ (82,008)	\$ 135,212
			=====	=====

Consolidated revenues for the nine months ended January 31, 1999 increased 48.0%

to \$447.7 million from \$302.4 million reported last year. The increase is primarily due to revenues from Mortgage operations of \$184.9 million, a 98.8% increase over last year, a 20.8% increase in revenues from U.S. tax operations and revenues from the new Business services segment.

The consolidated pretax loss from continuing operations for the first nine months of fiscal 1999 decreased to \$97.6 million from \$121.5 million last year. The decrease is attributable to higher earnings from Mortgage operations and increased investment income, which were reduced by increased losses from U.S. tax operations.

The net loss from continuing operations was \$60.5 million, or \$.60 per share, compared to \$75.3 million, or \$.72 per share, for the same period last year.

An analysis of operations by reportable operating segments follows.

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U.S. TAX OPERATIONS

Revenues increased 20.8% to \$219.7 million from \$181.9 million last year, resulting primarily from higher revenues from tax related services that are attributable to a 3.8% increase in clients served and price increases. Revenues from software sales and RAL participations also contributed to the increase.

The pretax loss increased 12.0% to \$138.0 million from \$123.2 million in the comparable period last year due to normal operational increases in compensation, rent and other facility-related expenses. Also contributing to the increases in rent and other facility-related expenses is an increase in the amount of tax office space maintained under lease during this year's off-season, as well as an additional 236 tax offices this tax season compared to last year's tax season. The increased loss was partially offset by earnings from software sales. Due to the nature of this segment's business, the nine month operating results are not indicative of expected results for the entire fiscal year.

INTERNATIONAL TAX OPERATIONS

Revenues decreased 9.0% to \$22.0 million compared to \$24.2 million in the prior year. The decrease is due to foreign currency translation of Australia operations and a decline in tax preparation and discounted return fees in Canada. Discounted returns prepared in company-owned offices declined 19.0% from the prior year. The number of tax returns prepared in company-owned offices declined 12.6% from last year.

The pretax loss increased 19.5% to \$15.7 million from \$13.2 million last year. The increase is due to higher facility-related expenses in Canada, which is attributable to the increase in the number of offices and normal operational increases, and increased compensation and benefits in the United Kingdom. Due to the nature of this segment's business, the nine month operating results are not indicative of expected results for the entire fiscal year.

MORTGAGE OPERATIONS

Revenues increased 98.8% to \$184.9 million from \$93.0 million in the same period last year. The increase is essentially attributable to Option One, which was acquired on June 17, 1997. Option One contributed revenues of \$157.8 million for the nine months, a \$76.9 million increase over the seven-and-a-half month period last year. Option One originated and sold or securitized \$2.5 billion in loans during the first nine months of fiscal 1999. Companion Mortgage also contributed revenues of \$27.1 million, a 123.9% increase over last year, due to interest income earned on higher balances of mortgage loans held for sale.

Pretax earnings increased 146.2% to \$48.6 million from \$19.8 million in the prior year. The increase is primarily due to Option One, which contributed earnings of \$46.7 million compared to earnings of \$19.3 million last year and increased earnings from Companion Mortgage. Earnings were reduced by increased losses from an equity investment.

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BUSINESS SERVICES

Business services is a new reportable operating segment for fiscal year 1999. Business services contributed revenues of \$18.1 million and a pretax loss of \$220 thousand for the nine months ended January 31, 1999, including goodwill amortization of \$1.3 million. Due to the nature of this segment's business, revenues are seasonal, while expenses are relatively fixed throughout the year. Results for the nine months are not indicative of the expected results for the entire year.

INVESTMENT INCOME, NET

Net investment income increased 196.9% to \$28.2 million from \$9.5 million last year. The increase is due to additional funds available for investment resulting from the proceeds of the monetization of WorldCom, Inc. stock during fiscal 1998.

UNALLOCATED CORPORATE AND ADMINISTRATIVE

The unallocated corporate and administrative pretax loss for the nine months increased 42.4% to \$7.2 million from \$5.0 million in the comparable period last year. The increase is a result of increased employee costs and the start-up of a business that offers financial planning services through the Company's tax offices.

OTHER ISSUES

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YEAR 2000 READINESS DISCLOSURE

The Company has established a program to identify, evaluate and mitigate potential Year 2000 related issues. As part of its program, the Company has identified three key categories of software and systems, including information technology (IT) systems, non-IT systems (systems with internal clocks or imbedded microprocessors) and systems of third parties with which it interacts, for which the Company has developed detailed plans to address the Year 2000 issue.

The Company has identified 9 mission critical business functions (i.e. U.S. tax preparation services, wholesale loan services, etc.) and 28 non-mission critical business functions (i.e. TaxCut(R) software, Australian tax operations, etc.). Within each of the business functions, key IT and non-IT systems have been inventoried and assessed for compliance and detailed plans are in place for required system modifications or replacements. Currently remediation projects are at different phases of completion. One hundred and thirty-five remediation projects, including both IT and non-IT systems, were identified within the 9 mission critical business functions. Of these projects, 87 are complete and successfully tested, 23 are in the testing phase and 25 are still in progress. Of the projects currently in the testing phase, 82% are scheduled to be completed by April 30, 1999. The remaining projects will be completed after the 1998 tax season due to the nature of the Company's business.

The Company has initiated communications and surveyed state, Federal and foreign governments and suppliers with which it interacts to determine their plans for addressing Year 2000 issues. The Company is relying on their responses to determine if key suppliers will be Year 2000 compliant. One of the Company's key third parties is the Internal Revenue Service (IRS). In a report given to the House Committee on Ways and Means on Year 2000 Conversion Efforts on

February 24, 1999, the Commissioner of the IRS reported the status of the IRS's Year 2000 effort. He stated: "Nearly all of our (IRS) mission critical systems were made Y2K compliant and were placed back into production for the 1999 Filing Season. Approximately half of these systems have been successfully tested "end-to-end" with the clocks rolled forward. We (IRS) will continue focusing our repair efforts on mission critical systems from now until the end of March. From April through the end of 1999, most of the effort will be applied to wrapping up some smaller systems and, most importantly, completing the full-scale End-to-End Testing." The Company is also in the process of completing a survey and inventory of tax franchisees. Some readiness issues have been identified and the

Company is assisting its franchisees with their remediation programs to help mitigate their risk. Assurances from franchisees of Year 2000 readiness are scheduled to be obtained after the end of the current tax season. The Company will continue to monitor its third party relationships for Year 2000 issues.

Costs associated with the Year 2000 issue are being expensed as incurred. Total costs are currently estimated at \$3.7 million, with approximately \$1.8 million incurred to date. The costs associated with the replacement of computer systems, hardware or equipment (currently estimated to be \$12.9 million in total, with \$10.4 million incurred to date), substantially all of which would be capitalized, are not included in the above estimates. All costs related to the Year 2000 issue are being funded through internally-generated funds.

The Company's most likely, worst case potential risk is that the IRS will not be Year 2000 compliant and the Company would not be able to process electronic filings or refund anticipation loans. The Company believes that its competitors will face the same risks.

The Company is currently identifying and developing contingency plans for Year 2000 related interruptions in the event that internal and/or external remediation projects are not completed on a timely basis or that they fail to meet anticipated needs. The contingency plans are scheduled to be completed by June 1999.

The Company's Year 2000 program is an ongoing process and the estimates of costs, risks and completion dates are based on currently available information and are subject to change.

While the Company does not anticipate any major interruptions of its business activities, it can not make any assurances that its systems, the systems of the state, Federal and foreign governments, tax franchisees and suppliers will be Year 2000 compliant and will not interrupt business. While the impact can not be fully determined, the inability of these systems to be ready could result in significant difficulties in processing and completing fundamental transactions. In such event, the Company's results of operations and financial position could be adversely affected in a material manner.

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QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As of January 31, 1999, there has been no change in the Company's market risk exposure related to interest rates on investments in fixed-rate mortgage loans held for resale or securitization from what was reported in the Company's Form 10-Q for the quarter ended October 31, 1998. As previously reported in the Company's Annual Report on Form 10-K for April 30, 1998, the Company hedged its fixed-rate mortgage portfolio by selling short treasury securities and utilizing forward commitments. This is still the Company's policy, however, due to market conditions it became apparent that the performance of selling short treasury securities was not correlating with the value of fixed-rate mortgages in the whole loan market. Therefore, at January 31, 1999 the Company had no outstanding hedges to minimize market risk on the fixed-rate mortgage loan portfolio. The Company is evaluating other alternatives to minimize market risk. At January 31, 1999, the fixed-rate portfolio represents 20.3% of all mortgage loans held for sale and 3.8% of total assets. Mortgage loans held for sale are recorded at the lower of cost or market value. If it is determined that the market value drops below cost, a valuation allowance would be set up and the loss would be recognized in the current period. No valuation allowance has been recorded at January 31, 1999.

The Company estimates that an increase in interest rates on fixed-rate mortgages of 50 basis points would result in a decline in value of approximately \$3.4 million, which would be recorded as a loss in the consolidated income statement to the extent that the market value dropped below cost. Such impact would represent approximately 6.9% of the pretax earnings from Mortgage operations and 3.5% of the Company's consolidated pretax loss for the nine months ended January 31, 1999, assuming the entire decline was recognized as a lower of cost or market adjustment.

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PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

The lawsuits discussed herein were reported in the Form 10-Q for the first and second quarters of fiscal 1999. CompuServe, certain current and former officers and directors of CompuServe and the registrant have been named as defendants in six lawsuits pending before the state and Federal courts in Columbus, Ohio. All suits involve claims based on allegations of omissions and misstatements of fact in connection with CompuServe's initial public offering in April 1996. Relief sought in the lawsuits is unspecified, but includes pleas for rescission and damages. The Federal suits were consolidated, the defendants filed a motion to dismiss the consolidated suits, the district court stayed all proceedings pending the outcome of the state court suits, and the United States Court of Appeals for the Sixth Circuit affirmed such stay. The state lawsuits were consolidated for discovery purposes and defendants filed a motion for summary judgment covering all four state lawsuits. In the state lawsuits, the court entered an order in July 1998 that the suits entitled Harvey Greenfield v. CompuServe Corporation, et al., Jeffrey Schnipper v. CompuServe Corporation, and Philip Silverglate v. CompuServe Corporation, et al. be maintained as a class action on behalf of the following class:

"All persons and entities who purchased shares of common stock of CompuServe Corporation between April 18, 1996 pursuant to the CompuServe's initial public offering or on the open market and July 16, 1996, and who were damaged thereby. All named defendants to these consolidated actions, members of their immediate families, any entity in which they have a controlling interest, and their legal representatives, heirs, successors or assigns are excluded from the class."

Plaintiffs Greenfield, Schnipper and Silverglate were designated as class representatives. The Florida State Board of Administration v. CompuServe Corporation, et al. case pending in state court was not included in the class certification order as the plaintiff in such case did not seek class certification of its action. The defendants continue to vigorously defend these lawsuits.

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

a) Exhibits

- 10.1 H&R Block Deferred Compensation Plan for Executives, as Amended and Restated.
for Executives, as Amended and Restated.
- 10.2 Amendment No. 1 to the H&R Block Deferred Compensation Plan for Executives, as Amended and Restated.
- 27 Financial Data Schedule

b) Reports on Form 8-K

The registrant did not file any reports on Form 8-K during the third quarter of fiscal 1999.

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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 03/16/99

BY /s/ Ozzie Wenich

Ozzie Wenich
Senior Vice President and
Chief Financial Officer

DATE 03/16/99

BY /s/ Cheryl L. Givens

Cheryl L. Givens
Vice President and Corporate Controller

H&R BLOCK
 DEFERRED COMPENSATION PLAN
 FOR EXECUTIVES,
 AS AMENDED AND RESTATED

JANUARY 1, 1999

H & R BLOCK
 DEFERRED COMPENSATION PLAN
 FOR EXECUTIVES,
 AS AMENDED AND RESTATED

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H&R BLOCK
DEFERRED COMPENSATION PLAN
FOR EXECUTIVES,
AS AMENDED AND RESTATED

H&R Block, Inc. (the "Company") established, effective August 1, 1987, a nonqualified deferred compensation plan for the benefit of specified Executives of the Company, and specified affiliates of the Company. This plan became known as the H&R Block Deferred Compensation Plan for Executives (the "DCP"). The Company amended the DCP by Amendment No. 1 effective December 15, 1990; by Amendment No. 2 effective January 1, 1990; by Amendment No. 3 effective September 1, 1991; by Amendment No. 4 effective January 1, 1994; by Amendment No. 5 effective May 1, 1994; by Amendment No. 6 effective August 1, 1995; by Amendment No. 7 effective December 11, 1996; by Amendment No. 8 effective January 1, 1998; by Amendment No. 9 effective as of January 1, 1997; by Amendment No. 10 effective in part March 1, 1998 and in part April 1, 1998; and by Amendment No. 11 effective as of May 15, 1998.

The Company adopted the H&R Block Supplemental Deferred Compensation Plan for Executives (the "Supplemental Plan") effective as of May 1, 1994. The Company amended said Supplemental Plan by Amendment No. 1 effective September 7, 1994; by Amendment No. 2 effective August 1, 1995; by Amendment No. 3 effective December 11, 1996; by Amendment No. 4 effective January 1, 1998; by Amendment No. 5 effective May 1, 1997; by Amendment No. 6 effective in part March 1, 1998 and in part April 1, 1998; and by Amendment No. 7 effective as of May 15, 1998.

The Company continues to retain the right to amend the DCP and the Supplemental Plan pursuant to action by the Company's Board of Directors. The Company hereby exercises that right by combining the DCP and the SDCP into one plan to be known as the H&R Block Deferred Compensation Plan for Executives, as Amended and Restated (the "Plan") and by making other amendments to the Plan. The Plan shall be effective as of January 1, 1999. Like its predecessors, 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 compensation to be paid under the Plan. For each Participant in the DCP or each Participant in both the DCP and the Supplemental Plan as of December 31, 1998, the "Account" shall include those accounts that existed under such plans for such Participant as of the close of business on December 31, 1998.

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 compensation 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 or by the Company pursuant to Section 4.1.

2.1.2 "Account Executive" means a person who has the title of Account Executive, is employed on a full-time basis by a Participating Affiliate, and is responsible for managing, overseeing, directing or handling the accounts of clients of the Participating Affiliate.

2.1.3 "Accounting Firm" means an accounting firm in which the Company has no direct or indirect ownership interest but with which an Accounting Subsidiary has a contractual relationship in respect of one or more employees who are employees of both such accounting firm and such Accounting Subsidiary.

2.1.4 "Accounting Subsidiary" means an indirect accounting firm subsidiary of the Company that is involved in the provision of non-attest accounting services, the management of one or more Accounting Firms, and/or the ownership of one or more other accounting firm subsidiaries of the Company.

2.1.5 "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.)

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

2.1.7 "Annual Deferral Amount" means the amount of Base Salary, and/or Bonus that a Participant elects to defer each Plan Year under a Permissible Deferral. The amount of Base Salary included in the Annual Deferral Amount shall be equal to a percentage of the Participant's Base Salary that is not less than three percent (3%) and not greater than fifty percent (50%), and the amount of Bonus or Bonuses included in the Annual Deferral Amount shall be equal to (i) a flat dollar amount, expressed in one thousand dollar (\$1,000) increments, or (ii) a percentage of the Bonus or Bonuses paid during the Plan Year that is not less than five percent (5%) and not greater than fifty percent (50%), expressed in five percent (5%) increments. In the case of a Participant who is an employee of both an Accounting Subsidiary and an Accounting Firm, the calculation of the amount of the Annual Deferral Amount that the Participant is permitted to elect shall be made by taking into account the amount of salary and bonus paid to such Participant by the Accounting Firm, but the actual deferral under the Plan shall only be made out of the Base Salary and/or Bonus or Bonuses paid by all Affiliates.

2.1.8 "Assumed Interest Rate" has the meaning specified in Section 6.4.3.

2.1.9 "Base Salary" of an Executive for any Plan Year means the total annual salary and wages paid by all Affiliates to such individual during that Plan Year, including any amount which would be included in the definition of Base Salary, but for the

individual's election to defer some of his or her salary pursuant to this Plan or some other deferred compensation plan established by an Affiliate; but excluding any other remuneration paid by Affiliates, such as overtime, net commissions, bonuses, stock options, distributions of compensation previously deferred, restricted stock, allowances for expenses (including moving, travel expenses, and automobile allowances), and fringe benefits payable in a form other than cash. The "Base Salary"

of an Account Executive for any Plan Year means the total earnings and wages, including any and all commissions, incentives and bonuses, paid by all Affiliates to such individual during that Plan Year, including any amount which would be included in the definition of Base Salary, but for the individual's election to defer some of his or her earnings pursuant to this Plan or some other deferred compensation plan established by an Affiliate; but excluding any other remuneration paid by Affiliates, such as overtime, stock options, distributions of compensation previously deferred, restricted stock, allowances for expenses (including moving, travel expenses, and automobile allowances), and fringe benefits payable in a form other than cash. In the case of an individual who is a participant in a plan sponsored by an Affiliate which is described in Section 401(k) of the Code, the term Base Salary shall include any amount which would be included in the definition of Base Salary, but for the individual's election to reduce his salary or earnings and have the amount of the reduction contributed to the 401(k) plan on his behalf.

2.1.10 "Beneficiary" or "Beneficiaries" means the persons or trusts designated by a Participant in writing pursuant to Section 6.6.4 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 6.6.5 of the Plan.

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

2.1.12 "Bonus" or "Bonuses" of an Executive for any Plan Year means the total remuneration paid under the various annual management bonus programs ("annual bonuses") by Affiliates to such individual for that Plan Year including any amount which would be included in the definition of Bonus, but for the individual's election to defer some or all of his or her annual bonus pursuant to this Plan or some other deferred compensation plan established by an Affiliate; but excluding any other remuneration paid by Affiliates, such as Base Salary, overtime, net commissions, stock options, distributions of compensation previously deferred, restricted stock, allowances for expenses (including moving, travel expenses, and automobile allowances), and fringe benefits payable in a form other than cash. For purposes of this Plan, the terms Bonus and Bonuses specifically exclude any and all types of commissions, incentives or bonuses paid by any Affiliate to an Account Executive.

2.1.13 "Change in Control" has the meaning specified in Section 10.2

2.1.14 "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.

2.1.15 "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.

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

2.1.17 "Common Stock" means the common stock of the Company.

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

2.1.19 "Company Contribution" or "Company Contributions" means the sum of (i) the Company Matching Contributions described in Section 4.1.2, and (ii) the additional Company contributions described in Section 4.1.3.

2.1.20 "DCP" means the H&R Block Deferred Compensation Plan for

Executives initially adopted by the Company effective as of August 1, 1987, as subsequently amended prior to the Effective Date of this Plan.

2.1.21 "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.

2.1.22 "Disabled" or "Disability" with respect to a Participant shall have the same definition as in the Company's then existing long term group disability insurance program.

2.1.23 "Early Retirement Date" of a Participant means the first day of the first calendar month commencing on or after the date on which (i) the Participant has reached Age 55 while in the employ of an Affiliate and (ii) the Participant has completed at least ten (10) Years of Service."

2.1.24 "Effective Date" or "Effective Date of this Plan" means the date on which the DCP became effective, i.e., August 1, 1987.

2.1.25 "Enrollment Period" for a Plan Year commencing on January 1 means the immediately preceding period of October 1 through December 15, inclusive. At its sole and absolute discretion, the Committee may grant to a person eligible to participate in the Plan an "Enrollment Period" consisting of the 30-day period immediately following the date on which such person is first employed by a Participating Affiliate.

2.1.26 "Executive" means a person other than an Account Executive with substantial responsibility in the management of a Participating Affiliate employed on a full-time basis by that Participating Affiliate.

2.1.27 "5-year payout" has the meaning specified in Section 6.3.2.

2.1.28 "Fixed 120 Account" means an Account that represents amounts deferred by a Participant under a Permissible Deferral election(s) as a part of which the Participant elected the fixed rate investment option described in the second paragraph of Section 4.2.1.

2.1.29 "Group A Participant" has the meaning specified in Section 3.1.1.

2.1.30 "Group B Participant" has the meaning specified in Section 3.1.2.

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2.1.31 "Hours of Service" means hours of service determined in accordance with the provisions of the then existing H&R Block Employee Profit Sharing Retirement Plan.

2.1.32 "Initial Payment Period" has the meaning specified in Section 6.4.2.

2.1.33 "Matching Contributions" has the meaning specified in Section 4.1.2.

2.1.34 "Normal Retirement Date" of a Participant means the last day of the calendar month in which the Participant reaches the Age of 65 while in the employ of an Affiliate.

2.1.35 "Overall Payment Period" has the meaning specified in Section 6.4.1.

2.1.36 "Participant" means an Executive or an Account Executive who is eligible to participate in the Plan and has elected to participate in the Plan.

2.1.37 "Participating Affiliate" or "Participating Affiliates" means the Company and the following indirect subsidiaries of the Company,

each of which is an Affiliate: HRB Management, Inc., H&R Block Tax Services, Inc., Block Financial Corporation, HRB Business Services, Inc., and the U.S. subsidiaries of such indirect subsidiaries; and such other Affiliates as may be designated as such by the Company from time to time.

2.1.38 "Permissible Deferral" means, with respect to a Plan Year, a deferral in that Plan Year of an Annual Deferral Amount. For all Participants, the aggregate of all deferrals made under the Plan, including the DCP and the Supplemental Plan, for all Plan Years may not exceed one million dollars (\$1,000,000.00).

In the case of a Participant who is an employee of both an Accounting Subsidiary and an Accounting Firm, the calculation of the amount of the Permissible Deferral shall be made by taking into account the amount of salary and bonus paid to such Participant by the Accounting Firm, but the actual deferral under the Plan shall only be made out of Base Salary and/or Bonus or Bonuses paid by all Affiliates.

Deferrals may be made from Base Salary for a Plan Year and/or from a Bonus or Bonuses applicable to the Plan Year. Deferrals from the Base Salary or from a Bonus or Bonuses are made in separate elections by the Participant during the Enrollment Period prior to the Plan Year during which such Base Salary would otherwise be paid to the Participant or the Bonus would be earned without further contingency (regardless of when such Bonus is paid). Deferral elections must specify (i) the percentage (stated as an integer) of the deferral that is intended to be deducted from the Base Salary and (ii) the percentage (stated as an integer) or the flat dollar amount of the deferral that is intended to be deducted from the Bonus or Bonuses. Deferrals made from the Base Salary shall be made in installments, as instructed and approved by the Committee. Deferrals made from each Bonus shall be made at the time or times during the applicable Plan Year that the Bonus would otherwise be paid to the Participant (based upon the deferral election in effect for the Plan Year when the Bonus was earned without further contingency). Each installment of a deferral shall be rounded to the nearest whole dollar amount.

A Participant may irrevocably elect at the time of making a Permissible Deferral election to have the entire amount of his or her Base Salary deferral for a Plan Year deferred from such Participant's Bonus or Bonuses earned during such Plan Year without

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further contingency. The amount of the Base Salary deferral will be determined as of January 1 of such Plan Year based on the annual rate of Base Salary in effect for the Participant on that date. Such election may be in addition to an election to defer Bonus itself and both the Base Salary deferral amount and the Bonus deferral amount are eligible for Company Contributions (subject to the limits specified in Article 4). For example, Participant A, a 5-year Plan Participant, is paid a Base Salary at an annual rate of \$100,000 on January 1 of Plan Year X, and earns a Bonus of \$50,000 without further contingency during Plan Year X. During the Enrollment Period prior to Plan Year X, A elected to defer 25% of Base Salary and 25% of Bonus in Plan Year X. A also elected to have all of the Base Salary deferral deferred from the Bonus. In this example, \$37,500 would be deferred from A's bonus (\$25,000 of salary deferrals (25% of \$100,000) and \$12,500 of bonus deferrals (\$25% of \$50,000)). The entire \$37,500 would be subject to Company Contributions under Article 4. If, in such example, the actual Bonus amount is \$35,000, all of the bonus would be deferred and \$2,500 of elected Base Salary deferrals would not be deferred from Base Salary or Bonus applicable to such Plan Year because the Bonus was not sufficiently large to cover both the elected Base Salary deferral and the Bonus deferral.

2.1.39 "Plan" means the "H&R Block Deferred Compensation Plan for Executives, as Amended and Restated" as of January 1, 1999, as set forth herein and as further amended and/or restated from time to time.

2.1.40 "Plan Year" means the calendar year for all Permissible Deferrals and for all purposes when used in Sections 4.3, 4.4, 6.2, 6.3, 6.4, 6.6 and 6.7. Except for Permissible Deferrals elected to commence on

March 1, 1998, and Permissible Deferrals elected during a discretionary Enrollment Period in accordance with Section 2.1.25, "Plan Year " means the calendar year (a) for all Permissible Deferrals elected by Group B Participants, and (b) for Permissible Deferrals of Group A Participants elected to commence January 1, 1991 or later. For Permissible Deferrals of Group A Participants elected to commence on or before May 1, 1990, "Plan Year" means the 12-month period ending each April 30, through April 30, 1997, the period between May 1, 1997 and December 31, 1997, inclusive, and the calendar year thereafter. For Permissible Deferrals of Participants elected to commence on March 1, 1998, "Plan Year" means the 10-month period between March 1, 1998 and December 31, 1998, inclusive, and the calendar year thereafter. If the Committee grants to a person eligible to participate in the Plan a discretionary Enrollment Period in accordance with Section 2.1.25 and such person submits to the Company a Permissible Deferral election, such Participant's first "Plan Year" shall be the period (i) beginning on the first day of his or her first regular pay period commencing not less than 30 days after the Company's receipt of his or her Permissible Deferral election, and (ii) ending on December 31 of the year in which such pay period falls. Plan Years under the DCP and Supplemental Plan shall constitute Plan Years under this Plan, provided that, for all purposes hereunder, a Participant that participated in both the DCP and the Supplemental Plan simultaneously shall be considered to have participated in this Plan for only one Plan Year for each Plan Year of simultaneous participation in the DCP and Supplemental Plan.

2.1.41 "Plan Year Payment Period" has the meaning specified in Section 6.4.2.

2.1.42 "Remainder Payment Period" has the meaning specified in Section 6.4.2.

2.1.43 "Standard Form of Benefit" as to any Participant means semimonthly payments for a fifteen (15) year period.

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2.1.44 "Supplemental Plan" means the H&R Block Supplemental Deferred Compensation Plan for Executives initially adopted by the Company effective as of May 1, 1994, as subsequently amended prior to the Effective Date of this Plan.

2.1.45 "10-year payout" has the meaning specified in Section 6.3.2.

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

2.1.47 "Years of Service" means the number of consecutive Plan Years (including years prior to the Effective Date of this Plan) for which the Participant had at least 1,000 Hours of Service.

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 Group A and Group B Participants, described as follows:

3.1.1 "Group A Participant" is an Executive of the Company or of a Participating Affiliate (i) serving as a Vice President of the Company or applicable Participating Affiliate, or (ii) participating in the DCP as a "Group A Participant" under the DCP as of December 31, 1998, as such term was defined as of such date.

3.1.2 "Group B Participant" is an Executive or Account Executive who does not qualify as a Group A Participant, but who is designated by the Committee as eligible to participate in the Plan.

Section 3.2 Time and Conditions of Participation. An eligible Executive or Account Executive shall become a Participant only upon (i) the individual's completion of a Permissible Deferral election for the succeeding Plan Year or Plan Years during an Enrollment Period, in accordance with a form established by the Company from time to time, and (ii) 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. An individual may make a Permissible Deferral election for any succeeding Plan Year during an Enrollment Period provided the total Permissible Deferral elections do not exceed the limitation set forth in Section 2.1.38.

Section 3.3 Termination of Participation. Once an individual has become a Participant in the Plan, participation shall continue until the first to occur of (i) payment in full of all benefits to which the Participant or Beneficiary is entitled under the Plan, or (ii) the occurrence of an event specified in Section 3.4 which results in loss of benefits, or (iii) for a Group B Participant, having an Annual Deferral Amount that causes the Participant's Base Salary and Bonus for the Plan Year, after reduction for the Annual Deferral Amount, to be less than ninety-nine percent (99%) of the United States Social Security Contribution and Benefit Base determined under Section 230 of

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the Social Security Act for such Plan Year. A Group B Participant whose participation in the Plan is terminated under clause (iii) of the preceding sentence shall be deemed for purposes of all Plan provisions (including Section 4.4, Section 5.1 and Section 6.3) to have voluntarily terminated employment with the Company as of the date the Participant's Plan participation is terminated. Such a Participant may then reenter the Plan during the following Enrollment Period, assuming the Participant continues to be eligible to participate in the Plan as provided in Section 3.1. 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 (i) the last date a payment of said benefit was made, if at least one such payment was made, or (ii) 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. For persons participating in the DCP and, if applicable, the Supplemental Plan, as of December 31, 1998, who continue as Participants in this Plan as of January 1, 1999, participation in this Plan shall be deemed to be continued participation in the DCP and, if applicable, the Supplemental Plan, but under the terms of this Plan.

Section 3.6 Changes in Employment Status. If a Participant has a change in his or her employment responsibilities, title and/or compensation, such that the Participant would not qualify for initial participation in the Plan as a Group A Participant or Group B Participant, as determined by the Committee, (i) the Participant shall continue to make deferrals in accordance with the Participant's Permissible Deferral election for the Plan Year during which the change in employment responsibilities, title and/or compensation occurs, (ii) the Participant shall not be eligible to make Permissible Deferrals in Plan Years following the Plan Year during which the change in employment responsibilities, title and/or compensation occurs unless and until the Participant again qualifies for initial participation as a Group A Participant or a Group B Participant, as determined by the Committee, and (iii) the

Participant shall otherwise continue to participate in the Plan.

ARTICLE 4 ENTRIES TO THE ACCOUNT

Section 4.1 Contributions

4.1.1 Deferrals. During each Plan Year, if the Participant elects the fixed rate and/or variable crediting rate option for measuring the performance of the Account under Section 4.2, the Company shall post to the Account of such Participant the dollar amount of Base Salary and Bonuses to be deferred as designated by the Participant's Permissible Deferral election in effect for that Plan Year. Deferrals from Base Salary each calendar month shall be posted as of the first day of such month and deferrals from Bonuses shall be posted as of the first day of the calendar month in which the Bonus would otherwise have been paid to the Participant.

During each Plan Year, if the Participant elects the Common Stock crediting rate option for measuring the performance of the Account under Section 4.2, the Company

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shall post to the Account of such Participant a number of Deferred Compensation Units equivalent to the amount of Base Salary and Bonuses to be deferred as designated by the Participant's Permissible Deferral election in effect for that Plan Year. Deferrals from Base Salary each calendar month (and the corresponding number of Deferred Compensation Units) shall be posted as of the first day of such month and deferrals from Bonuses shall be posted as of the first day of the calendar month in which the Bonus would otherwise have been paid to the Participant. The number of Deferred Compensation Units posted for each calendar month shall be calculated by dividing: (i) the dollar amount deferred during that month; by (ii) the Closing Price on the first business day (i.e., a day on which the Common Stock is traded on the New York Stock Exchange) of that month.

4.1.2 Company Matching Contributions. The Company shall post "Matching Contributions" to the Account of each Participant as follows. For each \$1.00 of Base Salary or Bonus deferred pursuant to Section 4.1.1, the Company shall post an additional \$.25 to the Participant's Account, provided, however, that the maximum percentage of each of Base Salary and Bonus to which a Matching Contribution shall be made with respect to a Plan Year shall be dependent upon the number of Plan Years in which the Participant has participated in the Plan, as follows:

Plan Year of Participation	Maximum Percentage of Base Salary and Bonus Matched by a Company Contribution
1st and 2nd Year of Participation	10%
3rd and 4th Year of Participation	20%
5th Year of Participation and After	25%

and, provided further, that the total of all Matching Contributions made pursuant to this Plan after December 31, 1998 shall not exceed twenty-five percent (25%) of the amount by which \$1,000,000.00 exceeds the aggregate amount of Permissible Deferrals completed by the Participant pursuant to the Plan on or before December 31, 1998.

The combination of the DCP and the Supplemental Plan into this Plan shall not result in the posting of any Company Matching Contributions to any accounts applicable to the Supplemental Plan (which had no Matching Contributions), nor shall such combination affect any Company Matching Contributions posted to accounts pursuant to the DCP. Deferrals made on and after January 1, 1999, by Participants who were participants in the Supplemental Plan shall result in the posting of Company Matching Contributions to the extent permitted by the immediately

preceding paragraph of this Section 4.1.2.

If the Participant elects the Common Stock crediting rate option for measuring the performance of the Account under Section 4.2, the Company shall post to the Account of such Participant for each calendar month a number of Deferred Compensation Units equal to (i) the dollar amount of Matching Contributions posted to the Account during such month; divided by (ii) the Closing Price on the first business day of that month. Deferred Compensation Units attributable to Matching Contributions shall be posted as of the same time as the corresponding Matching Contributions.

4.1.3 Additional Company Contributions. The Company shall also post to the Account of each Participant once each Plan Year the difference, if any, between (a) the amount for that Plan Year which would have been contributed on behalf of the Participant to any profit sharing plan which is deemed to be a "qualified plan" under the Code if the

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Participant had not made a Permissible Deferral election under the Plan; and (b) the amount for that Plan Year contributed on behalf of the Participant to such a plan.

If the Participant elects the Common Stock crediting rate option for measuring the performance of the Account under Section 4.2, the Company shall post to the Account of such Participant for the calendar month in which any Plan Year contribution is made by the Company pursuant to the first paragraph of this Section 4.1.3 a number of Deferred Compensation Units equal to (i) the dollar amount of any such Plan Year contribution made during such month; divided by (ii) the Closing Price on the first business day of that month. Deferred Compensation Units attributable to any contribution made by the Company pursuant to the first paragraph of this Section 4.1.3 shall be posted as of the same time as such corresponding contributions.

4.1.4 Disability. During the first 90-day period in which a Participant is Disabled, deferrals and Company Contributions (and, if applicable, the corresponding number of Deferred Compensation Units) shall continue to be posted as described in Sections 4.1.1, 4.1.2 and 4.1.3. If a Participant continues to be Disabled after such 90-day period, deferrals will cease but Company Contributions will continue for the balance of the Participant's Permissible Deferral period as if the Participant's deferrals had continued. A Participant may resume deferrals upon his or her return to work.

4.1.5 Fixed 120 Account Permissible Deferral Elections. A Participant making Base Salary and/or Bonus deferrals into a Fixed 120 Account under the DCP as of December 31, 1997 who did not make the special, one-time election provided under the DCP to have all then outstanding and incomplete Fixed 120 Account deferral cycles deemed completed as of December 31, 1997, shall continue to make such deferrals in accordance with the Participant's original Permissible Deferral election.

Section 4.2 Crediting Rate. Gains or losses shall be posted to the Account in accordance with the Participant's election of investment options which will be a reference for measuring the performance of the Account, as modified, if applicable, by Section 4.3 or Section 4.4. 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 Participant shall elect from among 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. On a monthly basis, Participants may elect to reallocate all or any portion of their Account balances, including the entire balance in a Fixed 120 Account, among the available investment options, including those funds selected by the Company for the variable rate investment option, provided said reallocations are in at least ten percent (10%) increments. If a Participant does elect to reallocate his or her entire Fixed 120 Account balance to another investment option, said Fixed 120 Account will be deemed closed and terminated. In no event shall a Participant be entitled to reallocate an Account balance that is not a Fixed 120 Account balance into a

Fixed 120 Account.

Participants may change their crediting rate elections during an Enrollment Period or once each calendar month by giving the Company written notice of such change on a form provided by the Company for that purpose. Upon receipt of such notice submitted with enrollment materials during an Enrollment Period, the crediting rate change shall be made as of the first day of the Plan Year to which the Enrollment Period relates. Upon receipt of such notice other than in connection with enrollment materials, the Company will effect the change on the first day of the calendar month immediately following the month in which such notice was received. Any change in crediting rate made in accordance with such notice procedures will govern the Participant's

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Account balance and future deferrals occurring after the effective date.

4.2.1 Fixed Rate. 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 September 30 of the Plan Year immediately 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.

For Permissible Deferrals elected under the DCP and commencing prior to January 1, 1995, the effective annual yield for the fixed rate crediting option shall be equal to one hundred twenty percent (120%) of the ten-year rolling average rate of ten-year United States Treasury notes. The ten-year rolling average rate will be the rate in effect as of September 30 of the Plan Year immediately 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.

4.2.2 Variable Rate. 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 Equity Portfolio, the Flexible Managed Portfolio, the Conservative Balanced Portfolio, the Money Market Portfolio, the Diversified Bond Portfolio, the High Yield Bond Portfolio and the Real Property Portfolio. 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.

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 4.3 Crediting Rate Upon Retirement, Disability, Continued Employment After Reaching the Age of 75, Death or Termination of Employment with all Affiliates as a Result of a Change in Control. If a Participant (i) terminates employment at or after Normal Retirement Date or Early Retirement Date, (ii) is Disabled, or (iii) continues employment after reaching the Age of 75 and has completed ten (10) Years of Service, gains and losses shall be credited as described in Section 4.2 to that Participant's Accounts. If a Participant dies prior to termination of employment, gains and losses shall be

credited, to date of death, as described in Section 4.2 to that Participant's Accounts. If a Participant terminates employment with all Affiliates before Normal Retirement Date or Early Retirement Date as a result of a Change in Control, gains and losses to all of that Participant's Accounts shall be credited as described in Section 4.2 up to, but not after,

the date of the Change in Control.

Section 4.4 Crediting Rate Upon Resignation or Discharge.

4.4.1 For a Participant whose employment with all Affiliates terminates on or after August 1, 1995, but before the Normal Retirement Date or the Early Retirement Date, for reasons other than death, Disability or a Change in Control, gains and losses shall be credited to that Participant's Account as described in Section 4.2 up to the date of termination of employment, and the crediting shall continue after such date for those Participants who elected a 10-year payout or a 5-year payout, as such terms are defined in Section 6.3.2. If a Participant elected to be paid in a lump sum, there shall be no further crediting to the Participant's Account following the date of termination of employment.

4.4.2 For a Participant whose employment with all Affiliates terminated prior to August 1, 1995, and before the Normal Retirement Date or the Early Retirement Date, for reasons other than death, Disability or a Change in Control, gains and losses to that Participant's Accounts that represent completed deferral cycles shall be credited as described in Section 4.2 up to the date of termination of employment. Gains and losses to that Participant's Accounts that do not represent completed deferral cycles and gains and losses after the date of termination of employment shall be credited at an interest rate equal to the average of (i) the interest rate set by the Chief Financial Officer of the Company in his discretion for the Plan Year in which the termination of employment occurs, which rate shall not be less than the rate then payable on Investment Savings Accounts of \$1,000 or less at Commerce Bank of Kansas City, N.A., Kansas City, Missouri, or any successor thereto, and (ii) the respective interest rates so set by the Chief Financial Officer of the Company for each of the two Plan Years immediately prior to the Plan Year in which the termination of employment occurs.

ARTICLE 5 VESTING

Section 5.1 Participant Deferrals and Vesting Schedule for Company Contributions. Participant deferrals pursuant to Section 4.1.1 are fully vested immediately. The Participant's interest in the Company Matching Contributions under Section 4.1.2 and the Company Contributions described in Section 4.1.3 shall vest according to the following schedule:

Years of Service	Percentage of Company Contributions Vested
Less than 2	None
2	20%
3	30%
4	40%
5	50%
6	60%
7	70%
8	80%
9	90%
10	100%

For purposes of crediting Years of Service under the foregoing Schedule, Participants will be credited with Years of Service beginning with the year in which the Participant began participation

in the Plan. A Disabled Participant will be credited with any Hours of Service with which he or she would have been credited but for the Disability.

Section 5.2 Exceptions to Vesting Schedule. Company Contributions are fully vested upon a Participant's death prior to termination of employment, and upon a Change in Control as defined in Section 10.2. Participants who have attained Age 65 prior to the date on which they first became eligible to participate in the Plan and who have completed ten (10) Years of Service are fully vested. Participants who have attained Age 55 (but are less than Age 65) prior to the date on which they first became eligible to participate in the Plan and who have completed ten (10) Years of Service, vest according to the following formula:

$$\frac{\text{Years of Service since initial Plan eligibility date}}{\text{65 minus Participant's Age on initial Plan eligibility date.}}$$

ARTICLE 6 DISTRIBUTION OF BENEFITS

Section 6.1 Payments After Termination of Employment. Generally, payments of benefits to a Participant shall be made by the Company only upon the termination, voluntary or involuntary, of the Participant's employment with all Affiliates, except where (i) a Participant is Disabled, (ii) the provisions of Section 6.2.2 apply, or (iii) the provisions of Section 6.7 apply.

Section 6.2 Form of Benefits Upon Retirement, Disability or Continued Employment After Reaching the Age of 75.

6.2.1 Retirement or Disability. Payments from the Account shall be made in accordance with the Standard Form of Benefit for Participants who terminate employment on or after Normal Retirement Date or Early Retirement Date or are Disabled. However, no less than 13 months prior to such termination of employment, the Participant may petition the Committee for, and the Committee may approve at such time, an optional form of benefit.

6.2.2 Continued Employment After Reaching the Age of 75. If a Participant reaches the Age of 75 while in the employ of an Affiliate, and has completed ten (10) Years of Service, payment of benefits shall commence in the first pay period of the first calendar quarter that begins at least forty-five (45) days after the date on which the Participant reaches the Age of 75. Payments from the Account shall be made in accordance with the Standard Form of Benefit. However, no less than 13 months prior to the date on which the Participant reaches the Age of 75, the Participant may petition the Committee for, and the Committee may approve at such time, an optional form of benefit.

6.2.3 Lump-Sum Payment. Notwithstanding any other provisions of the Plan, a Participant who terminates employment on or after Normal Retirement Date or Early Retirement Date, and a Participant who reaches the Age of 75 while in the employ of an Affiliate may, at any time before or after a Change in Control, as defined in Section 10.2, elect to receive an immediate lump-sum payment of the

aggregate of the balances of said Participant's Accounts reduced by a penalty, which shall be forfeited to the Company, in lieu of payments in accordance with the Standard Form of Benefit or such optional form of benefit as may have previously been approved by the Committee under this Section 6.2.3. The

penalty shall be equal to ten percent (10%) of the aggregate of the balances of such Accounts if the election is made before a Change in Control and shall be equal to five percent (5%) of the aggregate of the balances of such Accounts if the election is made after a Change in Control. However, the penalty shall not apply if the Committee determines, based on advice of counsel or a final determination or ruling by the Internal Revenue Service or any court of competent jurisdiction, that by reason of the provisions of this paragraph any Participant has recognized or will recognize gross income for federal income tax purposes under this Plan in advance of payment to the Participant of Plan benefits. The Company shall notify all Participants of any such determination by the Committee and shall thereafter refund all penalties which were imposed hereunder in connection with any lump-sum payments made at any time during or after the first year to which the Committee's determination applies (i.e., the first year for which, by reasons of the provisions of this paragraph, gross income under this Plan is recognized for federal income tax purposes in advance of payment of benefits). Interest compounded annually shall be paid by the Company to the Participant (or the Participant's Beneficiary if the Participant is deceased) on any such refund from the date of the Company's payment of the lump sum at an annual rate equal to the rate of one-year United States Treasury notes in effect as of September 30 of the Plan Year immediately prior to the Plan Year in which such refund is paid, as published by Salomon Brothers, Inc., or any successor thereto, or as determined by the Chief Financial Officer of the Company. The Committee may also reduce or eliminate the penalty if it determines that the right to elect an immediate lump-sum payment under this paragraph, with the reduced penalty or with no penalty, as the case may be, will not cause any Participant to recognize gross income for federal income tax purposes under this Plan in advance of payment to the Participant of Plan benefits.

Section 6.3 Form of Benefits Upon Resignation or Discharge, or Termination of Employment with all Affiliates as a Result of a Change in Control.

6.3.1 Upon a Participant's termination of employment with all Affiliates before Normal Retirement Date or Early Retirement Date, but following a Change in Control, payments from the Account shall be paid in a lump sum within forty-five (45) days after the date of the termination of employment.

6.3.2 If a Change in Control has not occurred, for Participants who terminate employment with all Affiliates on or after August 1, 1995, but before the Normal Retirement Date or the Early Retirement Date, for reasons other than Disability or death, payment(s) from the Account shall be in the form of (a) semimonthly payments over a 10-year period (a "10-year payout"); (b) semimonthly payments over a five-year period (a "5-year payout"); or (c) a lump sum, as elected by the Participant at the time of said Participant's first Permissible Deferral election, or, in the case of a Participant who made one or more Permissible Deferral elections prior to August 1, 1995, as elected by the Participant in writing during a special election period between August 15, 1995 and September 15, 1995, inclusive.

6.3.3 If a Change in Control has not occurred, for Participants who terminated employment with all Affiliates prior to August 1, 1995, but before the Normal Retirement

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Date or the Early Retirement Date, for reasons other than Disability or death, payment(s) from the Account shall be in the form of (a) semi-monthly payments over a three-year period for all Permissible Deferrals that satisfy a completed deferral cycle, or (b) a lump sum for all Permissible Deferrals that do not satisfy a completed deferral cycle.

6.3.4 If no election under Section 6.3.2 is made by the

Participant eligible to make such an election, payment from the Account shall be in the form of a lump sum. An election made in accordance with Section 6.3.2 shall apply to all Permissible Deferral elections made by the Participant under the Plan and is irrevocable.

6.3.5 If an eligible Participant has elected a 10-year payout or a 5-year payout pursuant to Section 6.3.2, and the amount of each semimonthly installment, as initially calculated, is less than \$500 (such calculation to be accomplished by amortizing the aggregate of the Participant's Account balances over the payment period using a crediting rate equal to the rate of one-year United States Treasury notes in effect as of September 30 of the Plan Year prior to the Plan Year in which the termination of employment occurs), the form of payment(s) for such Participant shall be a 5-year payout in lieu of an elected 10-year payout (unless the amount of each semimonthly installment under a 5-year payout, as so calculated, is also less than \$500, in which case the form of payment will be a single lump sum), or a lump sum in lieu of an elected 5-year payout, as the case may be.

6.3.6 Notwithstanding any other provisions of the Plan, an eligible Participant who (1) elects either a 10-year payout or a 5-year payout and either such payout is not automatically converted to a lump sum pursuant to Section 6.3.5, and (2) terminates employment before the Normal Retirement Date or the Early Retirement Date may, at any time before or after a Change in Control, as defined in Section 10.2, elect to receive an immediate lump-sum payment of the aggregate of the balances of said Participant's Accounts reduced by a penalty, which shall be forfeited to the Company, in lieu of payments in accordance with the 10-year payout or the 5-year payout, whichever is applicable. The penalty shall be equal to ten percent (10%) of the aggregate of the balances of such Accounts if the election is made before a Change in Control and shall be equal to five percent (5%) of the aggregate of the balances of such Accounts if the election is made after a Change in Control. However, the penalty shall not apply if the Committee determines, based on advice of counsel or a final determination or ruling by the Internal Revenue Service or any court of competent jurisdiction, that by reason of the provisions of this paragraph any Participant has recognized or will recognize gross income for federal income tax purposes under this Plan in advance of payment to the Participant of Plan benefits. The Company shall notify all Participants of any such determination by the Committee and shall thereafter refund all penalties which were imposed hereunder in connection with any lump-sum payments made at any time during or after the first year to which the Committee's determination applies (i.e., the first year for which, by reasons of the provisions of this paragraph, gross income under this Plan is recognized for federal income tax purposes in advance of payment of benefits). Interest compounded annually shall be paid by the Company to the Participant (or the Participant's Beneficiary if the Participant is deceased) on any such refund from the date of the Company's payment of the lump sum at an annual rate equal to the rate of one-year United States Treasury notes in effect as of September 30 of the Plan Year immediately prior to the Plan Year in which such refund is paid, as published by Salomon Brothers, Inc., or any successor thereto, or as determined by the Chief Financial Officer of the Company. The Committee may also reduce or eliminate the penalty if it determines that the right to elect an immediate lump-sum payment under this paragraph, with the reduced penalty or with no penalty, as the

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case may be, will not cause any Participant to recognize gross income for federal income tax purposes under this Plan in advance of payment to the Participant of Plan benefits.

Section 6.4 Amount of Benefit.

6.4.1 Except for distributions in the form of a lump sum, benefit payments shall be in the form of semimonthly cash installments paid during the applicable payment period (the "Overall Payment Period").

6.4.2 Except as provided in Section 6.4.4, the amount of each installment payment shall be level during the portion of the Overall

Payment Period ending on December 31 of the Plan Year in which benefit payments commence (the "Initial Payment Period"), during each complete Plan Year of the Overall Payment Period thereafter (a "Plan Year Payment Period"), and during any remaining period of the Overall Payment Period following the last Plan Year Payment Period (the "Remainder Payment Period"), but will vary from one such portion of the Overall Payment Period to the next. If a Participant was receiving benefits pursuant to Section 6.2 as of August 1, 1995, payments due on and after January 1, 1996 shall be made in accordance with this Section 6.4.2 and with Section 6.4.3.

6.4.3 The amount of each level payment for the Initial Payment Period, if any, shall be calculated using the balance in the Account as of the beginning of the Initial Payment Period and amortizing such balance over the remaining Overall Payment Period using an assumed interest rate equal to the rate of one-year United States Treasury notes, said rate to be determined once each Plan Year and to be the rate in effect as of the September 30 immediately preceding the payment period to which it applies, as published by Solomon Brothers, Inc., or any successor thereto, or as determined by the Chief Financial Officer of the Company (the "Assumed Interest Rate"). The amount of each level payment for each Plan Year Payment Period shall be calculated by taking the balance in the Account as of November 30 of the Plan Year immediately prior to such Plan Year Payment Period, subtracting the benefit payments made during the portion of such preceding Plan Year following November 30, and amortizing the difference over the remaining Overall Payment Period using the Assumed Interest Rate. The amount of each level payment for the Remainder Payment Period, if any, shall be calculated by taking the balance in the Account as of November 30 of the Plan Year immediately prior to the Remainder Payment Period, subtracting the benefit payments made during the portion of such preceding Plan Year following November 30, and amortizing the difference over the Remainder Payment Period using an assumed interest rate of zero percent (0%) per annum. If the actual crediting rate for the Remainder Payment Period is more than zero percent, the additional gain resulting from the difference in crediting rates shall be paid to the Participant in a single payment within six months after the last day of the Remainder Payment Period.

6.4.4 If the Participant terminates employment with all Affiliates prior to August 1, 1995, and receives benefits pursuant to Section 6.3.3, semimonthly payments for Permissible Deferrals that satisfy a completed deferral cycle shall be level during the entire Overall Payment Period and shall be calculated using the balance in the Account at the commencement of benefit payments, and amortizing such balance over three years at the crediting rate determined in accordance with Section 4.4.2.

6.4.5 Generally, the Account shall continue to be credited during the Overall Payment Period with gains and losses as provided in Section 4.3. However, if a Participant

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receives benefits pursuant to Section 6.3 (other than pursuant to Section 6.3.1), the Account shall be credited with gains and losses as provided in Section 4.4. Except as provided otherwise, if a Participant dies, Section 6.6 shall apply.

6.4.6 Notwithstanding anything in this Plan to the contrary, the Committee may, in its sole discretion, (i) increase or reduce any assumed interest rate set forth in this Section 6.4 and any such assumed interest rate, as so adjusted, shall be effective for calculating level semimonthly installments for Participants whose benefit payments commence after the date of such adjustment, and (ii) change the date set forth in Section 6.4.3 on which the balance in the Participant's Account is to be determined for purposes of calculating the amount of each level payment for each Plan Year Payment Period and each Remainder Payment Period, and any such revised date shall be effective for calculating level semimonthly installments for the Plan Year Payment Period or the Remainder Payment Period beginning on or after the effective date of such revision.

Section 6.5 Time of Payment. Generally, benefit payments to a Participant shall commence in the first pay period of the calendar quarter that begins at least forty-five (45) days after the date of termination of employment. Notwithstanding the preceding sentence, if a Participant elected to be paid in a lump sum, the benefit payment shall be made within forty-five (45) days after the date of termination of employment. In the case of a Disabled Participant, benefits shall commence no later than six (6) months after the Participant's Early Retirement Date.

With respect to Permissible Deferral elections made under the DCP prior to January 1, 1997, a Participant was permitted elect at the time of each Permissible Deferral election to defer commencement of the payment of benefits after termination of employment with respect to such Permissible Deferral election until the earlier of: (a) five (5) years after termination of employment; or (b) Age 70. If the Participant made such an election and did not revoke such election pursuant to a one-time opportunity during the Enrollment Period prior to the Plan Year commencing January 1, 1998, the Participant shall receive benefit payments in accordance with said election, provided that the Committee, upon written petition of the Participant, may begin benefit payments at an earlier time after termination if it determines that compelling reasons exist for such earlier payments. No elections to defer commencement of benefits shall be permitted under this Plan with respect to Permissible Deferrals commencing on or after January 1, 1998.

Section 6.6 Death Benefits.

6.6.1 Death After Benefit Commencement. In the event a Participant dies after benefit payments have commenced (other than payments made pursuant to Section 6.7), 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. If such benefits were payable pursuant to Section 6.3, the Account shall continue to be credited during the payout period as provided in Section 4.4, except that, if such benefits were payable because of the Participant's termination of employment with all Affiliates following a Change in Control, the Account shall continue to be credited as provided in Section 4.3. If such benefits were payable pursuant to Section 6.2, the Account shall be credited from the date of the Participant's death at a rate equal to the rate of one-year United States Treasury notes, said rate to be determined once each Plan Year and to be the rate in effect as of September 30 of the Plan Year immediately 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. The Participant's Beneficiary

may make the election to receive an immediate lump-sum payment of the balance of said Participant's Account in accordance with the provisions of Section 6.2.3 or Section 6.3.6, whichever is applicable, and all provisions set forth therein relating to penalties shall apply to any such election.

In addition, if a Participant dies on or after such Participant's Normal Retirement Date or Early Retirement Date after having retired, or after benefits have commenced because of the Participant's Disability, an annuity shall be paid to the Participant's surviving spouse, if any (to whom he has been married at least one (1) year prior to the date of death). The annuity shall be for the life of the Participant's surviving spouse with each semimonthly payment equal to fifty percent (50%) of the average amount which would have been payable to the Participant and his or her Beneficiary if, on the date benefits commenced, the Participant had received the Standard Form of Benefit payment. If the Participant's surviving spouse is more than thirty-six (36) months younger than the Participant, the survivor life annuity payable to such spouse shall be reduced by one-half of one percent (.5%) for each month the spouse is more than thirty-six (36) months younger than the Participant. Payment shall commence on the first day of the month following the later of (a) the Participant's death, (b) the completion of the death benefits under the first paragraph of this

Section 6.6.1, or (c) fifteen (15) years from the date benefits commenced or would have commenced to the Participant.

6.6.2 Death Prior to Benefit Commencement. In the event a Participant dies before benefit payments have commenced, the Company shall pay a pre-retirement death benefit to the Participant's Beneficiary. The amount of such pre-retirement death benefit is the greater of:

(a) the Participant's Account as of the date of the Participant's death annuitized over a ten-year period at an interest rate equal to the rate of one-year United States Treasury notes in effect as of September 30 of the Plan Year immediately prior to the Plan Year in which payment of the pre-retirement death benefit commences, as published by Salomon Brothers, Inc., or any successor thereto, or as determined by the Chief Financial Officer of the Company; or

(b) An annual benefit of twenty-five percent (25%) of the total deferrals and Company Contributions made as of the date of the Participant's death.

The pre-retirement death benefit shall be paid semimonthly for a ten-year period. The Beneficiary may petition the Committee for an alternative method of payment. If the pre-retirement death benefit is computed pursuant to 6.6.2(a), the Account shall continue to be credited during the payment period at an interest rate equal to the rate of one-year United States Treasury notes, said rate to be determined once each Plan Year and to be the rate in effect as of September 30 of the Plan Year immediately 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. Commencement of benefits under this Section 6.6.2 shall begin no later than six (6) months following the death of the Participant notwithstanding any election which the Participant may have made to defer benefits pursuant to Section 6.5.

6.6.3 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

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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.

6.6.4 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.

6.6.5 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 6.6.3, 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 6.7 Hardships. Upon the application of any Participant, the Committee, in accordance with its uniform, non-discriminatory policy, may permit such Participant to terminate future deferrals or to withdraw his total Account. A Participant must give a written petition of the termination of his or her Permissible Deferral election at least thirty (30) days prior to the next periodic (for Base Salary) or single sum (for Bonuses) deferral. A Participant must give a written petition of the intent to withdraw the Account at least sixty (60) days (or such shorter time as permitted by the Committee) prior to the date of withdrawal. No termination or withdrawal shall be made under the provisions of this Section except for the purpose of enabling a Participant to meet immediate needs created by a financial hardship for which the Participant does not have other reasonably available sources of funds, as determined by the Committee in accordance with uniform rules. The term financial hardship shall include the need for funds to: meet uninsured medical expenses for the Participant or his dependents, meet a significant uninsured casualty loss for the Participant or his dependents, and meet other catastrophes of a "sudden and serious nature."

The Committee may permit a withdrawal of any deferrals. If a withdrawal is permitted, a Participant's deferrals shall be credited at the lesser of (a) the amount as described in Section 4.2; or (b) an interest rate equal to the rate of one-year United States Treasury notes in effect as of September 30 of the Plan Year immediately prior to the Plan Year in which application for such withdrawal is made, as published by Salomon Brothers, Inc., or any successor thereto, or as determined by the Chief Financial Officer of the Company. Withdrawals shall be distributed in the form of a lump sum as soon as is reasonably convenient.

If a termination of deferrals or a withdrawal is made under this Section, the Participant may not enter into a new Permissible Deferral election for two (2) complete Plan Years after the date of

the termination or withdrawal.

Section 6.8 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 different 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 6.9 Alternate Forms of Benefit Distribution. Participants shall have the right to petition the Committee to request methods of benefit distribution other than those provided to Participants pursuant to this Article 6.

Section 6.10 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 Source 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

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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 vested portion of 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 effective for crediting of Accounts from the date of any such amendment.

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Notwithstanding anything in this Section 9.1 to the contrary, the Committee may, in its discretion, (i) amend the Plan to reduce or eliminate the penalty described in Section 6.2.3 and/or the penalty described in Section 6.3.6, in accordance with the provisions of such Section 6.2.3 and/or such Section 6.3.6, (ii) amend the Plan to increase or reduce any assumed interest rate set forth in Section 6.4, in accordance with the provisions of Section 6.4.6, or (iii) amend the Plan to change the date set forth in Section 6.4.3 on which the balance in the Participant's Account is to be determined for purposes of calculating the amount of each level payment for each Plan Year Payment Period and each Remainder Payment Period, in accordance with the provisions of Section 6.4.6.

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 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 and Company Contributions will cease and no future deferrals or Company Contributions 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. Active Participants shall become vested in their accrued benefits to the extent and in the manner provided in Section 9.3 as of the effective date of such termination and each account of an active Participant shall be credited, to the date of distribution of all benefits in each 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 is 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.

Section 9.3 Accelerated Vesting. Notwithstanding Article 5, upon termination of the Plan a Participant shall vest in Company Contributions according to the following schedule:

Years of Service	Percentage of Company Contributions Vested
Less than 1	None
1	20%
2	40%
3	60%
4	80%
5 or more	100%

Years of Service shall be credited in accordance with Section 5.1.

ARTICLE 10 ACCELERATED VESTING

Section 10.1 Accelerated Vesting. Notwithstanding Article 5, upon a Change in Control as defined in Section 10.2, a Participant shall be fully vested in Company Contributions.

Section 10.2 Change in Control. A Change in Control for any Participant shall occur if there is a Change in Control of the Company as defined in Section 1.01-2 of the Trust or there is a

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Change in Control of a Participating Subsidiary, as defined in Section 1.01-2 of the Trust, of the Participating Affiliate by whom the Participant is employed.

ARTICLE 11 MISCELLANEOUS

Section 11.1 No Guarantee of Employment. Neither the adoption and maintenance of the Plan nor the execution by the Company of a Permissible Deferral agreement with any Executive shall be deemed to be a contract of employment between the Company and any Participant. Nothing contained herein shall give any Participant the right to be retained in the employ of the Company or to interfere with the right of the Company to discharge any Participant at any time, nor shall it give the Company the right to require any Participant to remain in its employ or to interfere with the Participant's right to terminate his employment at any time.

Section 11.2 Individual Account Plan. If it is determined that the Plan is not an unfunded deferred compensation 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 and the vesting schedule set forth in Article 5 shall be replaced by the vesting schedule in the then current H&R Block Profit Sharing Retirement Plan.

Section 11.3 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 11.4 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 11.5 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 11.6 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 11.6 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 11.6.

Section 11.7 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 11.8 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

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preempted by the laws of the United States of America.

Dated: November 1, 1998

H&R BLOCK, INC.

By: /s/ Frank L. Salizzoni

Its: President and Chief Executive Officer

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AMENDMENT NO. 1
TO THE
H&R BLOCK DEFERRED COMPENSATION PLAN
FOR EXECUTIVES, AS AMENDED AND RESTATED

H&R Block, Inc. (the "Company") adopted the H&R Block Deferred Compensation Plan for Executives, as Amended and Restated (the "Plan"), effective as of January 1, 1999. The Company retains the right to amend the Plan pursuant to action by the Company's Board of Directors. The Company hereby exercises that right. This Amendment No. 1 is effective as of January 1, 1999.

AMENDMENT

1. Section 2.1.25 of the Plan is amended by adding the following sentence at the end of such Section:

"For persons eligible to participate in the Plan who were employed prior to January 1, 1999 by a subsidiary of HRB Business Services, Inc. that was incorporated after May 15, 1998, an 'Enrollment Period' is granted consisting of the period between January 4, 1999 and January 31, 1999, inclusive."

2. Section 2.1.40 of the Plan is amended by (a) deleting the second sentence thereof and replacing such second sentence with the following new sentence:

"Except for Permissible Deferrals elected to commence on March 1, 1998, and Permissible Deferrals elected during an Enrollment Period described in Section 2.1.25 other than a period comprised of October 1 through December 15, inclusive, 'Plan Year' means the calendar year (a) for all Permissible Deferrals elected by Group B Participants, and (b) for Permissible Deferrals of Group A Participants elected to commence January 1, 1991 or later.";

(b) deleting the fifth sentence thereof and replacing such fifth sentence with the following new sentence:

"If the Committee grants to a person eligible to participate in the Plan a discretionary Enrollment Period in accordance with Section 2.1.25 and such person submits to the Company a Permissible Deferrable election during such Enrollment Period, such Participant's first 'Plan Year' shall be the period (i) beginning on the first day of the first calendar month commencing not less than 45 days after the date that such Participant is first employed by a Participating Affiliate, and (ii) ending on December 31 of the year in which such calendar month falls."; and

(c) adding the following new sentence after the new fifth sentence of such Section 2.1.40 and prior to the sixth sentence of said Section:

"For Permissible Deferrals of Participants elected during the Enrollment Period consisting of the period between January 4, 1999 and January 31, 1999, inclusive, 'Plan Year' means the 10-month period between March 1, 1999 and December 31, 1999, inclusive, and the calendar year thereafter."

3. Section 4.1.2 of the Plan is amended by (a) adding the following words and punctuation after the words and punctuation "provided, however, that" and before the words "the maximum percentage" in the first paragraph of said Section:

"(i) each Participating Affiliate may elect before each Enrollment Period to have no Matching Contributions posted during the Plan Year (to which the Enrollment Period relates) to the Accounts of Participants employed by such Participating Affiliate, and (ii)";

and (b) adding the following new sentence at the end of the first paragraph of said Section:

"If a Participating Affiliate elects to have Matching Contributions posted to the Accounts of Participants employed by such Participating Affiliate during a Plan Year, Matching Contributions shall continue to be posted to such Accounts during all subsequent Plan Years, provided that, not less than four months prior to the beginning of any such subsequent Plan Year, the Participating Affiliate may petition the Committee, and the Committee may approve at such time, for no Matching Contributions to be posted to the Accounts of such Participants during such Plan Year."

4. Except as modified in this Amendment No. 1, the Plan shall remain in full force and effect, including the Company's right to amend or terminate the Plan as set forth in Article 9 of the Plan.

H&R BLOCK, INC.

By: /s/ Frank L. Salizzoni

Its: President and Chief Executive Officer

<ARTICLE> 5

<LEGEND>

THE SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE
CONSOLIDATED BALANCE SHEETS AND CONSOLIDATED STATEMENTS OF OPERATIONS AND IS
QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS

</LEGEND>

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<FN>

<F1>PP&E BALANCE IS NET OF ACCUMULATED DEPRECIATION AND AMORTIZATION.

<F2>NET OF TAX BENEFIT OF (\$13,726)

</FN>