

# SECURITIES AND EXCHANGE COMMISSION

## FORM 10-K405

Annual report pursuant to section 13 and 15(d), Regulation S-K Item 405

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### FILER

#### H&R BLOCK INC

CIK: **12659** | IRS No.: **440607856** | State of Incorporation: **MO** | Fiscal Year End: **0430**  
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FORM 10-K  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934 [FEE REQUIRED]  
For the fiscal year ended: April 30, 1995

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934 [NO FEE REQUIRED]  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 1-6089

H&R BLOCK, INC.

(Exact name of registrant as specified in its charter)

Missouri 44-0607856  
(State or other jurisdiction of (I.R.S. Employer Identifi-  
incorporation or organization) cation Number)

4410 Main Street, Kansas City, Missouri 64111  
(Address of principal executive offices) (Zip Code)

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

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

Title of each class	Name of each exchange on which registered
Common Stock, without par value	New York Stock Exchange Pacific Stock Exchange

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

Common Stock, without par value  
(Title of Class)

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

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

The aggregate market value of the voting stock held by non-affiliates of the registrant, computed by reference to the price at which the stock was sold on June 1, 1995, was \$3,593,515,157.

Number of shares of registrant's Common Stock, without par value, outstanding on June 1, 1995: 104,876,724.

DOCUMENTS INCORPORATED BY REFERENCE

Certain specified portions of the registrant's annual report to security holders for the fiscal year ended April 30, 1995, are incorporated herein by reference in response to Part I, Item 1, and Part II, Items 5 through 8, inclusive, and certain specified portions of the registrant's definitive proxy statement to be filed within 120 days after April 30, 1995, are incorporated herein by reference in response to Part III, Items 10 through 13, inclusive.

PART I

ITEM 1. BUSINESS.

GENERAL DEVELOPMENT OF BUSINESS

H&R Block, Inc. is a diversified services corporation that was organized in 1955 under the laws of the State of Missouri (the "Company"). It is the parent corporation in a two-tier holding company structure following a 1993 corporate restructuring. The second-tier holding company is H&R Block Group, Inc., a Delaware corporation and the direct owner of all of the shares of the Company's primary operating subsidiary corporations. Such primary operating subsidiaries consist of CompuServe Incorporated, H&R Block Tax Services, Inc., and Block Financial Corporation. Developments within each of these segments of the Company during fiscal year 1995 are described in the section below entitled "Description of Business."

During the year ended April 30, 1995, the Company was not involved in any bankruptcy, receivership or similar proceedings or any material reclassifications, mergers or consolidations and the Company did not acquire or dispose of any material amount of assets otherwise than in the ordinary course of business.

On April 4, 1995, the Company acquired SPRY, Inc., a private Washington corporation and a provider of Internet access applications for the office, home and publishing markets ("SPRY"). The transaction involved the acquisition by a wholly-owned subsidiary of the Company of all of the outstanding SPRY common and preferred stock in exchange for 401,768 shares of the Company's Delayed Convertible Preferred Stock valued at \$54.2 million and cash, including acquisition expenses, of \$41.8 million. Additionally, management stock options for 98,900 shares of SPRY common stock were converted to stock options for 51,828 shares of the Company's Delayed Convertible Preferred Stock, valued at approximately \$5.6 million. The acquisition was accounted for as a purchase and the Company recorded a charge to earnings of \$83.5 million for purchased research and development in connection with the acquisition. Following the end of fiscal year 1995, the Company contributed the stock of SPRY to H&R Block Group, Inc.

Each of the shares of Delayed Convertible Preferred Stock, without par value, issued by the Company in connection with the acquisition of SPRY, is convertible on or after April 5, 1998, into four shares of Common Stock of the Company, subject to adjustment in certain events. The holders of the shares of Delayed Convertible Preferred Stock are not entitled to receive dividends and such shares have no voting rights associated therewith.

SPRY has become the Internet Services Division of CompuServe Incorporated, although it remains a separate legal entity at this time. Such Division is described in the portion of the section below entitled "Description of Business" pertaining to CompuServe Incorporated.

After the close of fiscal year 1995, the Company sold MECA Software, Inc. ("MECA"), a Delaware corporation involved in developing, publishing and marketing personal productivity software products, to Bank of America, N.T. & S.A., and NationsBank, N.A. (Carolinas) for \$35 million, subject to certain closing adjustments. MECA's primary product is Managing Your Money (trademark), computer software designed to assist individuals in managing personal finances. The Company has retained ownership of the TaxCut (trademark) and Small Business Attorney (trademark) software products.

On April 12, 1995, Thomas M. Bloch submitted his resignation as President and Chief Executive Officer of the Company,

effective August 31, 1995, in order to pursue a number of non-business alternatives. A search committee consisting of three members of the Board of Directors was appointed to assist in the process of selecting a new Chief Executive Officer of the Company.

#### FINANCIAL INFORMATION ABOUT INDUSTRY SEGMENTS

The information required by Item 101(b) of Regulation S-K relating to financial information about industry segments is contained in the Notes to Consolidated Financial Statements in the Company's annual report to security holders for the fiscal year ended April 30, 1995, and is hereby incorporated by reference.

#### NUMBER OF EMPLOYEES

The Company, including its subsidiaries, has approximately 3,900 regular full-time employees. The highest number of persons employed by the Company during the fiscal year ended April 30, 1995, including seasonal employees, was approximately 91,000.

#### DESCRIPTION OF BUSINESS

##### COMPUSERVE INCORPORATED ("COMPUSERVE")

GENERALLY. The Company's computer services segment is comprised of CompuServe Incorporated, its subsidiaries and SPRY, Inc. CompuServe, the information services and computer communications subsidiary based in Columbus, Ohio, operates through three major divisions - CompuServe Information Services, CompuServe Network Services and CompuServe Internet Services (SPRY). CompuServe became a wholly-owned subsidiary of the Company in May 1980 and is presently a wholly-owned subsidiary of H&R Block Group, Inc. From its origins as a computer time-sharing firm, CompuServe has become a leading provider of computer-based information and communications services to businesses and individual owners of personal computers. In addition, the acquisition of SPRY in April 1995 was designed to place CompuServe at the forefront of the Internet industry.

CompuServe's largest division is its Information Services Division. The CompuServe Information Service, the online service for personal computer owners, provides subscribers with access to data services and interactive communication through the use of networked mainframes, servers and personal computers. The worldwide customer base of the online services operated by CompuServe and its international licensee and distributors grew to approximately 3.2 million subscribers at the end of fiscal year 1995, compared to approximately 1.9 million at the end of the previous year. Exclusive of such licensee and distributors, the customer base at fiscal year end was approximately 2.1 million, an increase of 55% over the number of subscribers at the end of fiscal year 1994. Of the 2.1 million subscribers, more than 300,000 are located in Europe, an increase from approximately 100,000 European subscribers at the end of fiscal year 1994.

CompuServe has licensed its core technology and network model relating to its online service into Japan. The Japanese licensee operates its own online service based on the CompuServe technology and model, and pays CompuServe royalties. CompuServe also has arrangements with various distributors in Japan, Australia, Mexico and other parts of the world whose main function is to generate customers for the CompuServe Information Service. While such overseas customers enter into contracts with CompuServe, they generally initiate their connection with the CompuServe Information Service through the distributors' telecommunications networks. CompuServe pays royalties to such distributors for the business that they generate and the associated support services that they provide to CompuServe members in the countries in which they operate.

Among the many services accessible through CompuServe's information system are online shopping services, stock market related services and airline reservation services. Customers can also play computer games, conduct research, send and receive messages, access the Internet and exchange helpful tips about computer use through special interest bulletin boards called "Forums" simply by connecting their personal computers to an ordinary telephone line.

Through its Information Services Division, CompuServe has also developed a wide range of business services that enable companies to link their employees with the information needed to conduct business. The services include electronic mail, internal corporate information systems for diverse applications, and a host of business-related databases. Electronic mail and other communications systems provided by CompuServe allow business users flexible, two-way access to information in operating areas such as sales, marketing, investment research and information management. Through the use of these systems, suppliers and customers are able to access information easily and securely through personal computers and computer terminals.

The Internet Services Division of CompuServe is a leader in the Internet commercialization industry. This Division resulted from the Company's acquisition in April 1995 of SPRY, Inc., the Seattle-based developer of Internet access systems. SPRY's skills in the development of Internet access software and in offering Internet business solutions are being combined with CompuServe's skills in the online and network industries to form a source for consumer Internet access, online content development, software development, online information design, Web server integration, network access and security management. The Internet Services Division produces "Internet In A Box" and "Mosaic In A Box," two popular products for consumers and businesses that provide access to the Internet through Windows computer formats.

CompuServe's Network Services Division provides the infrastructure that supports the CompuServe Information Service and CompuServe Internet Services, as well as value-added packet data network, frame relay and local area network services to corporations and many other diverse organizations. CompuServe's highly sophisticated and efficient telecommunications network links CompuServe subscribers and system users to each other, to CompuServe's central computer facilities or to other computer centers and data bases distributed across the country and around the world. By the end of fiscal year 1995, CompuServe had more than 430 points-of-presence worldwide and more than 42,000 dial ports through which members and customers connect to CompuServe's network and services.

The Network Services Division offers its customers a fast and reliable data communications system that can be customized to meet their particular requirements. The number of clients of the Network Services Division totalled 750 at the end of fiscal year 1995, an increase from the 586 clients at the end of fiscal year 1994. Major products of the Division include X.25, RLA (remote LAN access) and FRAME-Net (trademark) frame relay services.

One of the many applications for which the CompuServe network is utilized by its customers relates to point-of-sale transactions. CompuServe is a leading provider of value-added telecommunications services for point-of-sale authorization of credit card purchases. Using the CompuServe network, a merchant can pass a customer's card through a computer terminal and determine almost instantly whether the card is valid.

Early in fiscal year 1995, CompuServe disposed of CompuServe Data Technologies, a division that marketed database management software, and Collier-Jackson, Inc., a subsidiary of CompuServe that marketed newspaper management and financial software.

Following the end of fiscal year 1995, Robert J. Massey, formerly Executive Vice President, Network Services Division, was elected President and Chief Executive Officer of CompuServe. Mr. Massey succeeded Maurice A. Cox, Jr., who resigned in order to form a venture capital investment company in Ohio.

SERVICE MARKS, TRADEMARKS, PATENTS OR COPYRIGHTS. CompuServe claims ownership of the following trademarks and service marks registered on the principal register of the United States Patent and Trademark Office:

CompuServe	B Protocol
The Electronic Mall	WINCIM
B+ Protocol	FRAME-Net
Forum	The Source
CB Simulator	Alumni Advantage
CompuServe Information Manager	MacNav
InfoPlex	

CompuServe also owns or claims numerous unregistered service marks or trademarks.

CompuServe will receive its first patent in fiscal year 1996. The patent will cover technology CompuServe invented for seamlessly switching computer transactions among the various servers and mainframe computers that CompuServe operates. CompuServe presently holds no other patents on its technology, although several are presently pending. CompuServe is licensed by others to use various software programs and technology which it uses in various ways in its business.

COMPETITIVE CONDITIONS. The online information, Internet commercialization and value-added network services businesses are highly competitive and consist of a large number of companies. In terms of subscriber base, CompuServe is one of the largest providers of worldwide online information services. CompuServe has two significant competitors in the United States in the online information services industry, as well as numerous smaller competitors. In addition, several large U.S. companies have entered the online information services marketplace, or are about to enter such marketplace. Principal methods of competition in the online industry are price, content, ease of use and customer service.

The value-added network services industry is highly fragmented and no single supplier can be considered to occupy a dominant position in the industry. CompuServe's Internet Services Division competes with many Internet access providers, most of which operate in limited geographic areas. The Internet Services Division also competes with software and publishing companies that develop Internet applications and online content.

H&R BLOCK TAX SERVICES, INC. ("TAX SERVICES")

GENERALLY. The income tax return preparation and related services segment is the original core business of the Company. The services of this segment are provided to the public through a system of offices operated by Tax Services or by others to whom Tax Services has granted franchises. References in this section to "Tax Services" include H&R Block Tax Services, Inc., and its subsidiaries involved in the income tax return preparation business, and references in this section to "H&R Block" include both Tax Services and its franchisees.

Tax Services provides income tax return preparation services, electronic filing services and other services relating to income tax return preparation in many parts of the world. For U.S. returns, H&R Block offers a refund anticipation loan service in conjunction with its electronic filing service. H&R Block also markets its knowledge of how to prepare income tax returns through its income tax training schools. These schools teach taxpayers how to prepare their own income tax returns, as well as

provide Tax Services with a source of trained income tax return preparers. During the 1995 fiscal year, 118,316 students enrolled in H&R Block's basic and advanced income tax courses, compared to 133,458 students during fiscal year 1994.

**TAXPAYERS SERVED.** H&R Block served 17,060,000 taxpayers worldwide during fiscal year 1995, a decrease from the 18,107,000 taxpayers served in fiscal year 1994. "Taxpayers served" includes taxpayers for whom H&R Block prepared income tax returns as well as taxpayers for whom Block provided only electronic filing services.

The decrease in the number of taxpayers served by H&R Block in fiscal year 1995 primarily related to H&R Block's electronic filing and refund anticipation loan ("RAL") services. Under the 1995 RAL program, Tax Services' electronic filing customers who meet certain eligibility criteria are offered the opportunity to apply for loans from Beneficial National Bank in amounts based upon the customer's anticipated federal income tax refunds. Income tax return information is simultaneously transmitted by H&R Block to the Internal Revenue Service and the lending bank. Within a few days after the date of filing, a check in the amount of the loan, less the bank's transaction fee and H&R Block's tax return preparation fee and electronic filing fee, is received by the RAL customer. The Internal Revenue Service ("IRS") then directly deposits the participating customer's actual federal income tax refund into a designated account at the bank in order for the loan to be repaid.

Prior to the 1995 tax season, the IRS used a Direct Deposit Indicator ("DDI") to notify the electronic filer after receiving the taxpayer's electronically filed tax return that the taxpayer's request for direct deposit of the refund would be honored. The bank offering the RAL relied on the DDI to minimize loan losses and the DDI, therefore, enabled such bank to make RALs under relatively favorable terms to taxpayers. In October

1994, the IRS announced that it was eliminating the DDI for the 1995 tax season in an effort to curb fraudulent tax refund claims. During the 1995 tax season, the IRS made further changes to its electronic return processing systems and procedures to crack down on taxpayer fraud believed to be associated with the earned income tax credit ("EITC") claimed on returns. These changes resulted in delays in the IRS's issuance of refunds associated with the EITC. In reaction to the IRS changes, more stringent criteria were adopted in the loan approval process, the bank's transaction fee increased in many cases and, during much of the tax season, RALs were not made available on the portion of a refund amount attributable to the EITC. Consequently, fewer customers chose to apply for RALs and have their returns electronically filed. H&R Block experienced a 21% decline in fiscal year 1995 in the number of returns filed electronically.

**TAX RETURN PREPARATION.** During the 1995 income tax filing season (January 3 through April 30), H&R Block offices prepared approximately 15,059,000 individual United States and Canadian income tax returns, compared to the preparation of 15,181,000 such returns in fiscal year 1994. About 12,918,000 of the returns prepared in fiscal 1995 were United States returns, constituting 12% of an Internal Revenue Service estimate of total U.S. individual income tax returns filed during that time period. Tax Services and its franchisees prepared approximately 2,141,000 Canadian returns filed with Revenue Canada during the 1995 income tax filing season, compared with 2,144,000 Canadian returns prepared in the previous year. H&R Block also prepares U.S. income tax returns in other countries and Australian tax returns in Australia. The returns prepared at offices in countries outside of the United States and Canada constituted 2.6% of the total returns prepared by H&R Block in the last fiscal year. The following table shows the approximate number of income tax returns prepared at H&R Block offices in the United States and Canada during the last five tax filing seasons:

Tax Season Ended April 30  
(in thousands)

	1991	1992	1993	1994	1995
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Returns prepared (U.S. and Canada)	14,589	15,179	15,189	15,181	15,059
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During the tax season, most H&R Block offices are open from 9:00 a.m. to 9:00 p.m. weekdays and from 9:00 a.m. to 5:00 p.m. Saturdays and Sundays. Office hours are often extended during peak periods. Most tax preparation business is transacted on a cash basis. The procedures of Tax Services have been developed so that a customer's tax return is prepared in his or her presence, in most instances in less than one hour, on the basis of information furnished by the customer. In all company-owned offices and most franchised offices, tax returns are prepared with the assistance of a computer. After the customer's return has been initially prepared, he or she is advised of the amount of his or her tax due or refund. The return, however, is

retained and reviewed for theoretical accuracy. After completion of this review and after copies of the return have been made, the return is presented to the customer for signature and filing. These post-preparation procedures must be modified somewhat for customers who desire to have their returns electronically filed (see "Electronic Filing," below). If an H&R Block preparer makes an error in the preparation of a customer's tax return that results in the assessment of any interest or penalties on additional taxes due, while H&R Block does not assume the liability for the additional taxes, it guarantees payment of the interest and penalties.

**EXECUTIVE TAX SERVICE.** In addition to its regular offices, H&R Block offers tax return preparation services at Executive Tax Service offices in the United States and Canada. Appealing to taxpayers with more complicated returns, Executive Tax Service stresses the convenience of appointments, year-round tax service from the same preparer and private office interviews. The number of Executive Tax Service offices increased from 515 in fiscal year 1994 to 528 in 1995. In fiscal 1995, the number of Executive Tax Service clients increased to approximately 552,800, compared to approximately 513,700 in 1994. Tax Services plans to continue to expand the Executive Tax Service segment of its tax return preparation business.

**ELECTRONIC FILING.** Electronic filing reduces the amount of time required for a taxpayer to receive a federal tax refund and provides assurance to the client that the return, as filed with the Internal Revenue Service, is mathematically accurate. If the customer desires, he or she may have his or her refund deposited by the Treasury Department directly into his or her account at a financial institution designated by the customer. As reported above under "Taxpayers Served," eligible electronic filing customers may also apply for refund anticipation loans at Tax Services' offices through Beneficial National Bank. Tax Services and its franchisees filed approximately 5,941,000 tax returns electronically in 1995, compared to 7,559,000 in fiscal 1994. Approximately 2,325,000 refund anticipation loans were processed in 1995 by H&R Block, compared to 5,554,000 in 1994.

In 1995, H&R Block offered a service to transmit state income tax returns electronically to state tax authorities in 28 states (compared to 18 states in fiscal 1994) and plans to continue to expand this program as more states make this filing alternative available to their taxpayers. H&R Block also offered the electronic filing of U.S. income tax returns at offices located in Europe and the electronic filing of Australian and Canadian income tax returns at its offices in Australia and Canada, respectively.



CASH BACK. In Canada, the Company and its franchisees offer a refund discount ("Cash Back") program to their customers. The procedures which H&R Block must follow in conducting the program are specified by Canadian law. In accordance with current Canadian regulations, if a customer's tax return indicates that such customer is entitled to a tax refund, a check is issued by

H&R Block to the customer for an amount which is equal to the sum of (1) 85% of that portion of the anticipated refund which is less than or equal to \$300 and (2) 95% of that portion of the refund in excess of \$300. The customer assigns to H&R Block the full amount of the tax refund to be issued by Revenue Canada. The refund check is then sent by Revenue Canada directly to H&R Block and deposited by H&R Block in its bank account. In accordance with the law, the discount is deemed to include both the tax return preparation fee and the fee for tax refund discounting. This program is financed by short-term borrowing. The number of returns discounted under the Cash Back program decreased from 663,951 in fiscal year 1994 to 638,203 in fiscal year 1995.

OWNED AND FRANCHISED OFFICES. Most H&R Block offices are similar in appearance and usually contain the same type of furniture and equipment, in accordance with the specifications of Tax Services. Free-standing offices are generally located in business and shopping centers of large metropolitan areas and in the central business areas of smaller communities. All offices are open during the tax season. During the balance of the year only a limited number of offices are open, but through telephone listings, H&R Block personnel are available to provide service to customers throughout the entire year.

In fiscal year 1995, H&R Block also operated 954 offices in department stores, including 777 offices in Sears, Roebuck & Co. stores operated as "Sears Income Tax Service by H&R Block." During the 1995 tax season, the Sears' facilities constituted approximately 8.0% of the tax office locations of H&R Block. Tax Services has entered into a new license agreement with Sears under which Tax Services will continue to operate in Sears locations throughout the United States. Such license agreement expires on December 31, 2004. Tax Services believes its relations with Sears to be excellent and that both parties to the license arrangement view the operations thereunder to date as satisfactory.

On April 15, 1995, there were 9,703 H&R Block offices in operation principally in all 50 states, the District of Columbia, Canada, Australia and Europe, compared to 9,577 offices in operation on April 15, 1994. Of the 9,703 offices, 4,660 were owned and operated by Tax Services and 5,043 were owned and operated by independent franchisees. Of such franchised offices, 3,435 were owned and operated by "satellite" franchisees of Tax Services (described below), 919 were owned and operated by "major" franchisees (described below) and 689 were owned and operated by satellite franchisees of major franchisees. From time to time, Tax Services has acquired the operations of existing franchisees and it will continue to do so if future conditions warrant such acquisitions and satisfactory terms can be negotiated.

Two types of franchises have principally been granted by the tax services segment of the Company. "Major" franchisees entered into agreements with the Company (primarily in the Company's early years) covering larger cities and counties and providing for the payment of franchise royalties based upon a percentage of gross revenues of their offices. Under the agreements, the Company granted to each franchisee the right to the use of the name "H&R Block" and provided a Policy and Procedure Manual and other supervisory services. Tax Services offers to sell furniture, signs, advertising materials, office equipment and supplies to major franchisees. Each major franchisee selects and trains the employees for his or her office or offices. Since

March 1993, HRB Royalty, Inc., a wholly-owned subsidiary of Tax Services, has served as the franchisor under the major franchise agreements.

In smaller localities, Tax Services has granted what it terms "satellite" franchises. A satellite franchisee receives from Tax Services signs, designated equipment, specialized forms, local advertising, initial training, and supervisory services and, consequently, pays Tax Services a higher percentage of his or her gross tax return preparation and related service revenues as a franchise royalty than do major franchisees. Many of the satellite franchises of Tax Services are located in cities with populations of 15,000 or less. Some major franchisees also grant satellite franchises in their respective areas.

It has always been the policy of Tax Services to grant tax return preparation franchises to qualified persons without an initial franchise fee; however, the policy of Tax Services is to require a deposit to secure compliance with franchise contracts.

SEASONALITY OF BUSINESS. Since most of the customers of Tax Services file their tax returns during the period from January through April of each year, substantially all of Tax Services' revenues from income tax return preparation, related services and franchise royalties are received during this period. As a result, Tax Services operates at a loss through the first nine months of its fiscal year. Historically, such losses primarily reflect payroll of year-round personnel, training of income tax preparers, rental and furnishing of tax offices, and other costs and expenses relating to preparation for the following tax season.

SERVICE MARKS AND TRADEMARKS. HRB Royalty, Inc., a Delaware corporation and a wholly-owned subsidiary of Tax Services, claims ownership of the following service marks registered on the principal register of the United States Patent and Trademark Office:

H&R Block in Two Distinct Designs  
The Income Tax People  
H&R Block Income Tax and Design  
Income Tax Saver  
Executive (when used in connection with the  
preparation of income tax returns for others)  
Rapid Refund H&R Block and Design  
Accufile

In addition, HRB Royalty, Inc., claims ownership of the following unregistered service marks and trademarks:

America's Largest Tax Service  
Nation's Largest Tax Service

Tax Services has a license to use the trade names, service marks and trademarks of HRB Royalty, Inc., in the conduct of the business of Tax Services.

COMPETITIVE CONDITIONS. The tax return preparation and electronic filing business is highly competitive. Tax Services considers its primary source of tax return preparation competition to be the individual who prepares his own tax return. In addition, there are a substantial number of tax return preparation firms. Many of these firms and many firms not otherwise in the tax return preparation business are involved in providing electronic filing and refund anticipation loan services to the public. Commercial tax return preparers and electronic filers are highly competitive with regard to price, service and reputation for quality. Tax Services believes that in terms of the number of offices and tax returns prepared it is the largest tax return preparation firm in the United States. Tax Services also believes that in terms of the number of offices and tax returns electronically filed in fiscal year 1995, it is the

largest provider of electronic filing services in the United States.

#### BLOCK FINANCIAL CORPORATION ("BFC")

GENERALLY. Block Financial Corporation, a Delaware corporation and a subsidiary of H&R Block Group, Inc., was incorporated in May 1992 and such corporation and its subsidiaries are involved in the following businesses:

(1) financial services delivered by technology and financial service delivery technology; and

(2) financial services associated with H&R Block Tax Services, Inc.

BFC is developing technology that will deliver financial services online through existing commercial online services, the Internet or directly through leased networks. Such services could include home banking, electronic bill payment and/or discount brokerage services. BFC expects to focus its future efforts on the development of these technology products.

During fiscal year 1995, the operations of Legal Knowledge Systems, Inc., the developer of TaxCut (trademark) personal income tax return preparation software, were combined with BFC. Following the end of fiscal year 1995, BFC sold MECA Software, Inc., the publisher of the Managing Your Money (trademark) personal finance software. BFC's software business will continue to develop and market TaxCut (trademark), as well as market its Small Business Attorney (trademark) software product. Content associated with these software products are expected to form the basis for future online services.

In excess of 108,000 credit cards were issued by the end of fiscal year 1995 under a co-branding agreement between BFC and Columbus Bank and Trust Company, Columbus, Georgia. A majority of BFC's credit card portfolio consists of CompuServe gold cards. During fiscal year 1995, BFC introduced the Conductor service on CompuServe, a national online electronic credit card statement that provides the cardholder with access to transaction records and credit availability and the ability to download transactions into a personal financial software program. BFC owns an industrial loan company chartered in the State of Utah and has applied for FDIC insurance. Upon receiving such insurance, the industrial loan company may become a direct issuer of bank cards.

The decision by the Internal Revenue Service to eliminate the Direct Deposit Indicator in connection with refund anticipation loans (see the subsection entitled "Taxpayers Served" under "H&R Block Tax Services, Inc.," above), resulted in the decision by BFC not to invest in refund anticipation loans ("RALs") during the 1995 tax season. In 1993 and 1994, BFC purchased interests in a trust to which certain RALs made by Mellon Bank (DE) National Association to H&R Block tax customers in the United States were sold.

Franchise Partner, Inc., a subsidiary of BFC, offers to franchisees of either H&R Block Tax Services, Inc. or one of its subsidiary corporations lines of credit with reasonable interest rates under a program designed to better enable the franchisees to refinance existing business debt, expand or renovate offices or meet off-season cash flow needs. A franchise equity line of credit is secured by the franchise itself.

During fiscal year 1995, BFC provided property and casualty insurance coverage to franchisees of the Tax Services segment through Companion Insurance, Ltd., a captive insurance company domiciled in Bermuda. At May 1, 1995, the operations of such entity were transferred to H&R Block Tax Services, Inc.

COMPETITIVE CONDITIONS. The financial services, software,

credit card and lending businesses are highly competitive and consist of a large number of companies. No single supplier can be considered to occupy a dominant position in any of the businesses in which BFC competes.

ITEM 2. PROPERTIES.

The executive offices of both the Company and H&R Block Tax Services, Inc., are located at 4410 Main Street, Kansas City, Missouri, in a three-story building owned by Tax Services that was constructed in 1963 and expanded in 1965, 1973 and 1981. The building is again being expanded, with the completion of a new four-story addition expected during fiscal year 1996. Most other offices of Tax Services (except those in department stores) are operated in premises held under short-term leases providing fixed monthly rentals, usually with renewal options.

CompuServe's executive offices are located in an office complex in Columbus, Ohio, owned by CompuServe. CompuServe also owns and occupies two other buildings in the Columbus area. Construction of a new multi-building corporate facility in the Columbus area is underway and CompuServe plans to take occupancy during fiscal year 1996. CompuServe leases office space in other buildings in the Columbus area and in a number of other locations in the United States and Europe. CompuServe owns SC30M computer systems purchased from Systems Concepts, Inc., and has assembled several SC-30 and SC-40 processors on-site via an agreement with such firm. CompuServe also owns central processors manufactured by Digital Equipment Corporation and located in its two main computer centers.

The executive offices of Block Financial Corporation are located in leased offices at 4435 Main Street, Kansas City, Missouri.

ITEM 3. LEGAL PROCEEDINGS.

There are no material legal proceedings pending by or against the Company or any of its subsidiaries.

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

No matters were submitted to a vote of security holders, through the solicitation of proxies or otherwise, during the fourth quarter of the fiscal year ended April 30, 1995.

ITEM 4A. EXECUTIVE OFFICERS OF THE REGISTRANT.

The names, ages and principal occupations (for the past five years) of the executive officers of the Company, each of whom has been elected to serve at the discretion of the Board of Directors of the Company, are:

NAME AND AGE	OFFICE(S)
Henry W. Bloch (72)	Chairman of the Board since August 1992; Chairman of the Board and Chief Executive Officer from August 1989 through July 1992; Member of the Board of Directors since 1955.
Thomas M. Bloch (41)	President and Chief Executive Officer since August 1992; President and Chief Operating Officer from August 1989 through July 1992; Member of the Board of Directors since 1983. See Note 1.
William P. Anderson (46)	Senior Vice President and

Chief Financial Officer since September 1994; Vice President, Corporate Development and Chief Financial Officer from August 1992 until September 1994; Vice President, Corporate Development from December 1991 until August 1992; See Note 2.

Robert L. Arnold (52)

Vice President and Director of Internal Audit since February 1986.

Ozzie Wenich (52)

Vice President, Finance and Treasurer since October 1994; Vice President, Corporate Controller and Treasurer from March 1994 until October 1994; Vice President and Corporate Controller from September 1985 until March 1994.

Note 1: On April 12, 1995, Mr. Thomas Bloch announced his resignation as President and Chief Executive Officer, effective August 31, 1995.

Note 2: Mr. Anderson was a partner in KPMG Peat Marwick, accounting firm, from 1984 until December 1991, in Atlanta, Georgia, serving in various capacities, including responsibility for the firm's national corporate finance consulting practice.

## PART II

### ITEM 5. MARKET FOR THE REGISTRANT'S COMMON STOCK AND RELATED STOCKHOLDER MATTERS.

The information called for by this item is contained in the Company's annual report to security holders for the fiscal year ended April 30, 1995, under the heading "Common Stock Data," and is hereby incorporated by reference. The Company's Common Stock is traded principally on the New York Stock Exchange. The Company's Common Stock is also traded on the Pacific Stock Exchange. On June 12, 1995, there were 37,514 stockholders of the Company.

### ITEM 6. SELECTED FINANCIAL DATA.

The information called for by this item is contained in the Company's annual report to security holders for the fiscal year ended April 30, 1995, under the heading "Selected Financial Data," and is hereby incorporated by reference.

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

The information called for by this item is contained in the Company's annual report to security holders for the fiscal year ended April 30, 1995, under the headings "Management's Discussion and Analysis of Results of Operations" and "Management's Discussion and Analysis of Liquidity and Capital Resources," and is hereby incorporated by reference.

### ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

The information called for by this item and listed at Item 14(a)1 is contained in the Company's annual report to security holders for the fiscal year ended April 30, 1995, and is hereby incorporated by reference.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

There has been no change in the registrant's accountants during the two most recent fiscal years or any subsequent interim time period.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

The information called for by this item is contained in the Company's definitive proxy statement to be filed pursuant to Regulation 14A not later than 120 days after April 30, 1995, in the section titled "Election of Directors" and in Item 4a of Part I of this report, and is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION.

The information called for by this item is contained in the Company's definitive proxy statement to be filed pursuant to Regulation 14A not later than 120 days after April 30, 1995, in the sections entitled "Directors' Meetings, Compensation and Committees" and "Compensation of Executive Officers," and is incorporated herein by reference, except that information contained in the section entitled "Compensation of Executive Officers" under the subtitles "Performance Graph" and "Compensation Committee Report on Executive Compensation" is not incorporated herein by reference and is not to be deemed "filed" as part of this filing.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

The information called for by this item is contained in the Company's definitive proxy statement to be filed pursuant to Regulation 14A not later than 120 days after April 30, 1995, in the section titled "Election of Directors" and in the section titled "Information Regarding Security Holders," and is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

The information called for by this item is contained in the Company's definitive proxy statement to be filed pursuant to Regulation 14A not later than 120 days after April 30, 1995, in the section titled "Election of Directors," and is incorporated herein by reference.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K.

(a) 1. FINANCIAL STATEMENTS

The following consolidated financial statements of H&R Block, Inc., and subsidiaries are incorporated by reference from the Company's annual report to security holders for the year ended April 30, 1995:

	PAGE
	----
Consolidated Statements of Earnings	19
Consolidated Balance Sheets	20
Consolidated Statements of Cash Flows	21
Notes to Consolidated Financial Statements	22
Quarterly Financial Data	27
Independent Auditors' Report	29

2. FINANCIAL STATEMENT SCHEDULES

Independent Auditors' Report

Schedule VIII - Valuation and Qualifying Accounts

Schedules not filed herewith are either not applicable, the information is not material or the information is set forth in the financial statements or notes thereto.

3. EXHIBITS

- 3(a) Restated Articles of Incorporation of H&R Block, Inc., as amended, filed as Exhibit 4(a) to the Company's quarterly report on Form 10-Q for the quarter ended October 31, 1991, are incorporated herein by reference.
- 3(b) Bylaws of H&R Block, Inc., as amended.
- 4(a) Conformed copy of Rights Agreement dated as of July 14, 1988 between H&R Block, Inc., and Centerre Trust Company of St. Louis, filed on August 9, 1993 as Exhibit 4(c) to the Company's Registration Statement on Form S-8 (File No. 33-67170), is incorporated herein by reference.
- 4(b) Copy of Amendment to Rights Agreement dated as of May 9, 1990 between H&R Block, Inc. and Boatmen's Trust Company.
- 4(c) Copy of Second Amendment to Rights Agreement dated September 11, 1991 between H&R Block, Inc. and Boatmen's Trust Company.
- 4(d) Copy of Third Amendment to Rights Agreement dated May 10, 1995 between H&R Block, Inc. and Boatmen's Trust Company.
- 4(e) Form of Certificate of Designation, Preferences and Rights of Participating Preferred Stock of H&R Block, Inc.
- 4(f) Form of Certificate of Designation, Preferences and Rights of Delayed Convertible Preferred Stock of H&R Block, Inc.
- 10(a) The Company's 1984 Long-Term Executive Compensation Plan, as amended (terminated as of September 8, 1993, except with respect to awards then outstanding thereunder), filed as Exhibit 28(a) to the Company's quarterly report on Form 10-Q for the quarter ended October 31, 1991, is incorporated herein by reference.
- 10(b) The Company's 1993 Long-Term Executive Compensation Plan, filed as Exhibit 10 to the Company's quarterly report on Form 10-Q for the quarter ended October 31, 1993, is incorporated herein by reference.
- 10(c) The H&R Block Long-Term Performance Program, as amended, filed as Exhibit 10(c) to the Company's annual report on Form 10-K for the fiscal year ended April 30, 1994, is incorporated herein by reference.
- 10(d) The H&R Block Deferred Compensation Plan for Directors, as amended, filed as Exhibit 10 to

the Company's quarterly report on Form 10-Q for the quarter ended July 31, 1994, is incorporated herein by reference.

- 10(e) The H&R Block Deferred Compensation Plan for Executives, as amended (Amendments 1 through 5), filed as Exhibit 10(e) to the Company's annual report on Form 10-K for the fiscal year ended April 30, 1994, is incorporated herein by reference.
- 10(f) The H&R Block Supplemental Deferred Compensation Plan for Executives, filed as Exhibit 10(f) to the Company's annual report on Form 10-K for the fiscal year ended April 30, 1994, is incorporated herein by reference.
- 10(g) Amendment No. 1 to The H&R Block Supplemental Deferred Compensation Plan for Executives, filed as Exhibit 10(a) to the Company's quarterly report on Form 10-Q for the quarter ended October 31, 1994, is incorporated herein by reference.
- 10(h) The Amended and Restated H&R Block, Inc. Retirement Plan for Non-Employee Directors.
- 10(i) The Company's 1989 Stock Option Plan for Outside Directors, as amended, filed as Exhibit 28(b) to the Company's quarterly report on Form 10-Q for the quarter ended October 31, 1991, is incorporated herein by reference.
- 10(j) Employment Agreement between HRB Management, Inc. and William F. Evans, filed as Exhibit 10(b) to the Company's quarterly report on Form 10-Q for the quarter ended October 31, 1994, is incorporated herein by reference.
- 11 Statement re Computation of Per Share Earnings.
- 13 Those portions of the annual report to security holders for the fiscal year ended April 30, 1995 which are expressly incorporated by reference in this filing.
- 21 Subsidiaries of the Company.
- 23 The consent of Deloitte & Touche LLP, Certified Public Accountants, is located immediately after the signature pages contained in this filing.
- 27 Financial Data Schedule.

(b) Reports on Form 8-K.

The Company did not file any current reports on Form 8-K during the fourth quarter of the year ended April 30, 1995.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.



June 21, 1995

By/s/ Thomas M. Bloch  
-----  
Thomas M. Bloch, President  
and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated.

SIGNATURE -----	TITLE -----
/s/ Thomas M. Bloch ----- Thomas M. Bloch	President, Chief Executive Officer and Director (principal executive officer)
/s/ G. Kenneth Baum ----- G. Kenneth Baum	Director
/s/ Henry W. Bloch ----- Henry W. Bloch	Director
/s/ Robert E. Davis ----- Robert E. Davis	Director
/s/ Donna R. Ecton ----- Donna R. Ecton	Director
/s/ Henry F. Frigon ----- Henry F. Frigon	Director
/s/ Roger W. Hale ----- Roger W. Hale	Director

(Signed as to each on June 21, 1995)

SIGNATURE -----	TITLE -----
/s/ Marvin L. Rich ----- Marvin L. Rich	Director
/s/ Frank L. Salizzoni ----- Frank L. Salizzoni	Director

/s/ Morton I. Sosland  
-----  
Morton I. Sosland

Director

/s/ William P. Anderson  
-----  
William P. Anderson

Senior Vice President  
and Chief Financial  
Officer (principal  
financial officer)

/s/ Ozzie Wenich  
-----  
Ozzie Wenich

Vice President, Finance  
and Treasurer (principal  
accounting officer)

(Signed as to each on June 21, 1995)

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in Post-Effective Amendment No. 4 to Registration Statement No. 33-185 of H&R Block, Inc. and subsidiaries (relating to shares of Common Stock issued under the 1984 Long-Term Executive Compensation Plan) on Form S-8, Registration Statement No. 33-33889 of H&R Block, Inc. and subsidiaries (relating to shares of Common Stock issuable under the 1989 Stock Option Plan for Outside Directors) on Form S-8 and Registration Statement No. 33-54985 of H&R Block, Inc. and subsidiaries (relating to shares of Common Stock issued under the 1993 Long-Term Executive Compensation Plan) on Form S-8 of our reports dated June 20, 1995, appearing in and incorporated by reference in this Annual Report on Form 10-K of H&R Block, Inc. and subsidiaries for the year ended April 30, 1995.

/s/ Deloitte & Touche LLP  
-----  
Kansas City, Missouri  
July 28, 1995

INDEPENDENT AUDITORS' REPORT

Board of Directors and Stockholders  
H&R Block, Inc.  
Kansas City, Missouri

We have audited the consolidated financial statements of H&R Block, Inc. and subsidiaries as of April 30, 1995 and 1994 and for each of the three years in the period ended April 30, 1995, and have issued our report thereon dated June 20, 1995; such consolidated financial statements and report are included in your 1995 Annual Report to Stockholders and are incorporated herein by reference. Our audits also included the financial statement schedule of H&R Block, Inc. and subsidiaries, listed in Item 14. This financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion based on our audits. In our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ Deloitte & Touche LLP  
-----  
Kansas City, Missouri  
June 20, 1995

<TABLE>

H&R BLOCK, INC.

AND SUBSIDIARIES  
 SCHEDULE VIII - VALUATION AND QUALIFYING ACCOUNTS  
 YEARS ENDED APRIL 30, 1995, 1994 AND 1993

<CAPTION>

Description -----	Balance Beginning of Period -----	Additions -----		Deductions -----	Balance at End of Period -----
		Charged to Costs and Expenses -----	Charged to Other -----		
<S>	<C>	<C>	<C>	<C>	<C>
Allowance for Doubtful Accounts-deducted from accounts receivable in the balance sheet					
1995	\$12,744,000 =====	\$13,619,000 =====	\$ - =====	\$19,089,000 =====	\$ 7,274,000 =====
1994	\$12,000,000 =====	\$24,977,000 =====	\$ - =====	\$24,233,000 =====	\$12,744,000 =====
1993	\$ 7,292,000 =====	\$13,962,000 =====	\$ - =====	\$ 9,254,000 =====	\$12,000,000 =====

</TABLE>

As amended through  
September 6, 1989

AMENDED AND RESTATED  
BYLAWS  
OF  
H & R BLOCK, INC.

OFFICES

1. OFFICES. The corporation shall maintain a registered office in the State of Missouri, and shall have a resident agent in charge thereof. The location of the registered office and name of the resident agent shall be designated in the Articles of Incorporation, or by resolution of the board of directors, on file in the appropriate offices of the State of Missouri. The corporation may maintain offices at such other places within or without the State of Missouri as the board of directors shall designate.

SEAL

2. SEAL. The corporation shall have a corporate seal inscribed with the name of the corporation and the words "Corporate Seal - Missouri". The form of the seal may be altered at pleasure and shall be used by causing it or a facsimile thereof to be impressed, affixed, reproduced or otherwise used.

SHAREHOLDERS' MEETINGS

3. PLACE OF MEETINGS. All meetings of the shareholders shall be held at the principal office of the corporation in Missouri, except such meetings as the board of directors (to the extent permissible by law) expressly determines shall be held elsewhere, in which case such meetings may be held at such other place or places, within or without the State of Missouri, as the board of directors shall have determined.

4. ANNUAL MEETING. (a) DATE AND TIME. The annual meeting of shareholders shall be held on the first Wednesday in September of each year, if not a legal holiday, and if a legal holiday, then on the first business day following, at 9:00 a.m., or on such other date as the board of directors may specify, when

directors shall be elected and such other business transacted as may be properly brought before the meeting.

(b) BUSINESS CONDUCTED. At an annual meeting of the shareholders, only such business shall be conducted as shall have been properly brought before the meeting. To be properly brought before an annual meeting, business must be specified in the notice of meeting (or any supplement thereto) given by or at the direction of the board, otherwise properly brought before the meeting by or at the direction of the board, or otherwise properly brought before the meeting by a shareholder. In addition to any other applicable requirements, for business to be properly brought before an annual meeting by a shareholder, the shareholder must have given timely notice thereof in writing to the secretary. To be timely, such notice must be delivered to or mailed and received at the principal executive offices of the corporation not less than 50 days nor more than 75 days prior to the meeting; provided, however, that if fewer than 65 days' notice or prior public disclosure of the date of the meeting is given or made to shareholders, notice by the shareholder to be timely must be so received not later than the close of business on the 15th day following the day on which such notice of the date of the annual meeting was mailed or such public disclosure was made. A shareholder's notice to the secretary shall set forth as to each matter the shareholder proposes to bring before the annual meeting (i) a brief description of the business desired to be brought before the annual meeting and the reasons for conducting such business at the annual meeting, (ii) the name and record address of the shareholder proposing such business, (iii) the class and number of shares of the corporation that are beneficially owned by the shareholder, and (iv) any material interest of the shareholder in such business.

Notwithstanding anything in the bylaws to the contrary, no business shall be conducted at the annual meeting except in accordance with the procedures set forth in this section 4(b); provided, however, that nothing in this section 4(b) shall be deemed to preclude discussion by any shareholder of any business properly brought before the annual meeting in accordance with said procedure.

The chairman of an annual meeting shall, if the facts warrant, determine and declare to the meeting that business was not properly brought before the meeting in accordance with the provisions of this section 4(b), and if he should so determine, he shall so declare to the meeting and any such business not properly brought before the meeting shall not be transacted.

5. SPECIAL MEETINGS. Special meetings of the shareholders may be called at any time by the chairman of the board or by the president, or at any time upon the written

request of a majority of the board of directors, or upon the written request of the holders of not less than 80% of the stock of the corporation entitled to vote in an election of directors. Each call for a special meeting of the shareholders shall state the time, the day, the place and the purpose or purposes of such meeting and shall be in writing, signed by the persons making the same and delivered to the secretary. No business shall be transacted at a special meeting other than such as is included in the purposes stated in the call.

6. CONDUCT OF ANNUAL AND SPECIAL MEETINGS. The chairman of the board, or in his absence the president, shall preside as the chairman of the meeting at all meetings of the shareholders. The chairman of the meeting shall be vested with the power and authority to (i) maintain control of and conduct an orderly meeting; (ii) exclude any shareholder from the meeting for failing or refusing to comply with any of the procedural standards or rules or conduct or any reasonable request of the chairman; and (iii) appoint inspectors of elections, prescribing their duties, and administer any oath that may be required under Missouri law.

7. NOTICES. Written or printed notice of each meeting of the shareholders, whether annual or special, stating the place, date and time thereof and in case of a special meeting, the purpose or purposes thereof shall be delivered or mailed to each shareholder entitled to vote thereat, not less than ten nor more than fifty days prior to the meeting, unless, as to a particular matter, other or further notice is required by law, in which case such other or further notice shall be given. Any notice of a shareholders' meeting sent by mail shall be deemed to be delivered when deposited in the United States mail with postage prepaid thereon, addressed to the shareholder at his address as it appears on the books of the corporation.

8. WAIVER OF NOTICE. Whenever any notice is required to be given under the provisions of these bylaws, the Articles of Incorporation of the corporation, or of any law, a waiver thereof, if not expressly prohibited by law, in writing signed by the person or persons entitled to such notice, shall be deemed the equivalent to the giving of such notice.

9. QUORUM. Except as otherwise may be provided by law, by the Articles of Incorporation of the corporation or by these bylaws, the holders of a majority of the shares issued and outstanding and entitled to vote thereat, present in person or by proxy, shall be required for and shall constitute a quorum at all meetings of the shareholders for the transaction of business. Every decision of a majority in amount of shares of such quorum shall be valid as a corporate act, except in those specific instances in which a larger vote is required by law or by the

Articles of Incorporation. If a quorum be not present at any meeting, the shareholders entitled to vote thereat, present in person or by proxy, shall have power to adjourn the meeting to a specified date not longer than 90 days after such adjournment without notice other than announcement at the meeting, until the requisite amount of voting shares shall be present. At such adjourned meeting at which the requisite amount of voting shares shall be represented any business may be transacted which might have been transacted at the meeting as originally notified.

10. PROXIES. At any meeting of the shareholders, every shareholder having the right to vote shall be entitled to vote in person or by proxy appointed by an instrument in writing subscribed by such shareholder and bearing a date not more than eleven months prior to said meeting unless said instrument provides that it shall be valid for a longer period.

11. VOTING. Each shareholder shall have one vote for each share of stock having voting power registered in his name on the books of the corporation and except where the transfer books of the corporation shall have been closed or a date shall have been fixed as a record date for the determination of its shareholders entitled to vote, no share of stock shall be voted at any election for directors which shall have been transferred on the books of the corporation within fifty days preceding such election of directors.

Shareholders shall have no right to vote cumulatively for the election of directors.

A shareholder holding stock in a fiduciary capacity shall be entitled to vote the shares so held, and a shareholder whose stock is pledged shall be entitled to vote unless, in the transfer by the pledgor on the books of the corporation, he shall have expressly empowered the pledgee to vote thereon, in which case only the pledgee or his proxy may represent said stock and vote thereon.

12. SHAREHOLDERS' LISTS. A complete list of the shareholders entitled to vote at every election of directors, arranged in alphabetical order, with the address of and the number of voting shares held by each shareholder, shall be prepared by the officer having charge of the stock books of the corporation and for at least ten days prior to the date of the election shall be open at the place where the election is to be held, during the usual hours for business, to the examination of any shareholder and shall be produced and kept open at the place of the election during the whole time thereof to the inspection of any shareholder present. The original or duplicate stock ledger shall be the only evidence as to who are shareholders entitled to examine such lists, or the books of the corporation,

or to vote in person or by proxy, at such election. Failure to comply with the foregoing shall not affect the validity of any action taken at any such meeting.

13. RECORDS. The corporation shall maintain such books and records as shall be dictated by good business practice and by law. The books and records of the corporation may be kept at any one or more offices of the corporation within or without the State of Missouri, except that the original or duplicate stock ledger containing the names and addresses of the shareholders, and the number of shares held by them, shall be kept at the registered office of the corporation in Missouri. Every shareholder shall have a right to examine, in person, or by agent or attorney, at any reasonable time, for any reasonable purpose, the bylaws, stock register, books of account, and records of the proceedings of the shareholders and directors, and to make copies of or extracts from them.

#### DIRECTORS

14. NUMBER AND POWERS OF THE BOARD. The property and business of this corporation shall be managed by a board of directors, and the number of directors to constitute the board shall be not less than nine nor more than fifteen, the exact number to be fixed by a resolution adopted by the affirmative vote of a majority of the whole board of directors, but shall be twelve until and unless so fixed. Directors need not be shareholders. In addition to the powers and authorities by these bylaws expressly conferred upon the board of directors, the board may exercise all such powers of the corporation and do or cause to be done all such lawful acts and things as are not prohibited, or required to be exercised or done by the shareholders only.

15. INCUMBENCY OF DIRECTORS. (a) ELECTION AND TERM OF OFFICE. The directors of the corporation shall be divided into three classes: Class I, Class II and Class III. Membership in such classes shall be as nearly equal as possible and any increase or decrease in the number of directors shall be apportioned by the board of directors among the classes to maintain the number of directors in each class as nearly equal as possible. At each annual meeting of shareholders, directors shall be elected to succeed those whose terms then expire and to fill any vacancies and newly created directorships not previously filled by the board. Newly elected directors shall belong to the same class as the directors they succeed or, with respect to newly created directorships, to the respective classes to which such directorships are assigned by the board of directors. The term of office of each director shall begin immediately after his election and, except as set forth in the Articles of Incorporation as to the terms of office of the initial directors in each class, the directors in each class shall hold office



until the third succeeding annual meeting of shareholders after the regular election of directors of that class or until their successors are elected and qualified and subject to prior death, resignation, retirement or removal from office of a director. No decrease in the number of directors constituting the board of directors shall reduce the term of any incumbent director.

(b) REMOVAL. The entire board of directors of the corporation may be removed at any time but only by the affirmative vote of the holders of 80% or more of the outstanding shares of each class of stock of the corporation entitled to elect one or more directors at a meeting of the shareholders called for such purpose.

16. VACANCIES. Any newly created directorship resulting from an increase in the number of directors, and any vacancy occurring on the board of directors through death, resignation, disqualification, disability or any other cause, may be filled by vote of a majority of the surviving or remaining directors then in office, although less than a quorum, or by a sole remaining director. Any director so elected to fill a vacancy shall hold office for the unexpired portion of the term of the director whose place shall be vacated and until the election and qualification of his successor.

17. MEETINGS OF THE NEWLY ELECTED BOARD OF DIRECTORS - NOTICE. The first meeting of each newly elected board, which shall be deemed the annual meeting of the board, shall be held on the same day as the annual meeting of shareholders, as soon thereafter as practicable, at such time and place, either within or without the State of Missouri, as shall be designated by the president. No notice of such meeting shall be necessary to the continuing or newly elected directors in order legally to constitute the meeting, provided that a majority of the whole board shall be present; or the members of the board may meet at such place and time as shall be fixed by the consent in writing of all of the directors.

18. NOTICE. (a) REGULAR MEETINGS. Regular meetings of the board of directors may be held without notice at such place or places, within or without the State of Missouri, and at such time or times, as the board of directors may from time to time fix by resolution adopted by the whole board. Any business may be transacted at a regular meeting.

(b) SPECIAL MEETINGS. Special meetings of the board of directors may be called by the chairman, the president or any two directors. Notice thereof stating the place, date and hour of the meeting shall be given to each director either by mail not less than 48 hours before the date of the meeting, by telephone or telegram on 24 hours' notice, or on such shorter notice as the

person or persons calling such meeting may deem necessary or appropriate in the circumstances. The place may be within or without the State of Missouri as designated in the notice. The "call" and the "notice" of any such meeting shall be deemed synonymous.

19. QUORUM. At all meetings of the board of directors a majority of the whole board shall, unless a greater number as to any particular matter is required by statute, by the Articles of Incorporation or by these bylaws, constitute a quorum for the transaction of business, and the act of a majority of the directors present at any meeting at which there is a quorum shall be the act of the board of directors. Less than a quorum may adjourn the meeting successively until a quorum is present, and no notice of adjournment shall be required.

The foregoing provisions relating to a quorum for the transaction of business shall not be affected by the fact that one or more of the directors have or may have interests in any matter to come before a meeting of the board, which interests are or might be adverse to the interests of this corporation. Any such interested director or directors shall at all times be considered as present for the purpose of determining whether or not a quorum exists, provided such director or directors are in attendance and do not waive the right to vote.

20. NOMINATIONS FOR ELECTION AS DIRECTORS. Only persons who are nominated in accordance with the following procedures shall be eligible for election as directors. Nominations of persons for election to the board of directors may be made at a meeting of shareholders (i) by or at the direction of the board of directors by any nominating committee or person appointed by the board or (ii) by any shareholder of the corporation entitled to vote for the election of directors at the meeting who complies with the notice procedures set forth in this section 20. Such nominations, other than those made by or at the direction of the board, shall be made pursuant to timely notice in writing to the secretary.

To be timely, a shareholder's notice shall be delivered to or mailed and received at the principal executive offices of the corporation not less than 50 days nor more than 75 days prior to the meeting; provided, however, that if fewer than 65 days' notice or prior public disclosure of the date of the meeting is given or made to shareholders, notice by the shareholder to be timely must be received not later than the close of business on the 15th day following the day on which such notice of the date of the meeting was mailed or such public disclosure was made. Such shareholder's notice to the secretary shall set forth (a) as to each person whom the shareholder proposes to nominate for election or reelection as a director, such person's name, age,

business address, residence address, and principal occupation or employment, the class and number of shares of capital stock of the corporation that are beneficially owned by such person, and any other information relating to such person that is required to be disclosed in solicitations for proxies for election of directors pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended; and (b) as to the shareholder giving the notice, such shareholder's name and record address and the class and number of shares of capital stock of the corporation that are beneficially owned by such shareholder. The corporation may require any proposed nominee to furnish such other information as may reasonably be required by the corporation to determine the eligibility of such proposed nominee to serve as a director of the corporation. No person shall be eligible for election as a director of the corporation unless nominated in accordance with the procedures set forth herein.

The chairman of the meeting shall, if the facts warrant, determine and declare to the meeting that a nomination was not made in accordance with the foregoing procedure, and if he should so determine, he shall so declare to the meeting and the defective nomination shall be disregarded.

21. DIRECTORS' ACTION WITHOUT MEETING. If all the directors severally or collectively consent in writing to any action to be taken by the directors, such consents shall have the same force and effect as a unanimous vote of the directors at a meeting duly held. The secretary shall file such consents with the minutes of the meetings of the board of directors.

22. WAIVER. Any notice provided or required to be given to the directors may be waived in writing by any of them, whether before, at, or after the time stated therein. Attendance of a director at any meeting shall constitute a waiver of notice of such meeting except where he attends for the express purpose of objecting to the transaction of any business thereat because the meeting is not lawfully called or convened.

23. INDEMNIFICATION OF DIRECTORS AND OFFICERS. The corporation may indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, other than an action by or in the right of the corporation, by reason of the fact that he is or was a director or officer of the corporation, or is or was serving at the request of the corporation, as a director or officer of another corporation, partnership, joint venture, trust or other enterprise, against expenses, including attorneys' fees, judgments, fines and amounts paid in settlement actually and reasonably incurred by him in connection with such action, suit or proceeding if he acted in good faith and in a manner he

reasonably believed to be in or not opposed to the best interests of the corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful. The termination of any action, suit or proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent, shall not, of itself, create a presumption that the person did not act in good faith and in a manner which he reasonably believed to be in or not opposed to the best interests of the corporation, and, with respect to any criminal action or proceeding, had reasonable cause to believe that his conduct was unlawful.

The corporation may indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the corporation to procure a judgment in its favor by reason of the fact that he is or was a director or officer of the corporation, or is or was serving at the request of the corporation as a director or officer of another corporation, partnership, joint venture, trust or other enterprise against expenses, including attorneys' fees, and amounts paid in settlement actually and reasonably incurred by him in connection with the defense or settlement of the action or suit if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the corporation; except that no indemnification shall be made in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable for negligence or misconduct in the performance of his duty to the corporation unless and only to the extent that the court in which the action or suit was brought determines upon application that, despite the adjudication of liability and in view of all the circumstances of the case, the person is fairly and reasonably entitled to indemnity for such expenses which the court shall deem proper.

To the extent that a director or officer of the corporation has been successful on the merits or otherwise in defense of any action, suit or proceeding referred to in the first two unnumbered paragraphs of this section 23, or in defense of any claim, issue or matter therein, he shall be indemnified against expenses, including attorneys' fees, actually and reasonably incurred by him in connection with the action, suit or proceeding.

Any indemnification under the first two unnumbered paragraphs of this section 23, unless ordered by a court, shall be made by the corporation only as authorized in the specific case upon a determination that indemnification of the director or officer is proper in the circumstances because he has met the applicable standard of conduct set forth in this section 23. The determination shall be made by the board of directors by a

majority vote of a quorum consisting of directors who were not parties to the action, suit or proceeding, or if such a quorum is not obtainable, or even if obtainable, a quorum of disinterested directors so directs, by independent legal counsel in a written opinion, or by the shareholders.

Expenses incurred in defending a civil or criminal action, suit or proceeding may be paid by the corporation in advance of the final disposition of the action, suit or proceeding as authorized by the board of directors in the specific case upon receipt of an undertaking by or on behalf of the director or officer to repay such amount unless it shall ultimately be determined that he is entitled to be indemnified by the corporation as authorized in this section 23.

The indemnification provided by this section 23 shall not be deemed exclusive of any other rights to which those seeking indemnification may be entitled either under the Articles of Incorporation or bylaws or any agreement, vote of shareholders or disinterested directors or otherwise, both as to action in his official capacity and as to action in another capacity while holding such office, and shall continue as to a person who has ceased to be a director or officer and shall inure to the benefit of the heirs, executors and administrators of such a person.

The corporation shall have the power to give any further indemnity, in addition to the indemnity authorized or contemplated under other subsections of this section 23, to any person who is or was a director or officer or to any person who is or was serving at the request of the corporation as a director or officer of another corporation, partnership, joint venture, trust or other enterprise, provided such further indemnity is either (i) authorized, directed or provided for in the Articles of Incorporation of the corporation or any duly adopted amendment thereof or (ii) authorized, directed or provided for in any bylaw or agreement of the corporation which has been adopted by a vote of the shareholders of the corporation, and provided further that no such indemnity shall indemnify any person from or on account of such person's conduct which was finally adjudged to have been knowingly fraudulent, deliberately dishonest or willful

misconduct. Upon adoption of this bylaw by the shareholders of the corporation, the corporation may enter into indemnification agreements with each director who is in office on the date of such adoption and, by vote of or resolution adopted by a majority of a quorum of disinterested directors, with each director who is thereafter elected a director of the corporation. The corporation may enter into indemnification agreements with each officer of the corporation whom the board of directors, by vote of a majority of a quorum of disinterested directors, authorizes or may, by resolution adopted by a vote of a majority of a quorum

of disinterested directors, authorize indemnification of any officer to the same extent as provided in such indemnification agreement, subject to the same exception as provided therein and such additional exception as may be set forth in such resolution. Such indemnification agreements shall be substantially in the form attached as Annex I to the bylaws.

The corporation may purchase and maintain insurance on behalf of any person who is or was a director or officer of the corporation, or is or was serving at the request of the corporation as a director or officer of another corporation, partnership, joint venture, trust or other enterprise against any liability asserted against him and incurred by him in any such capacity, or arising out of his status as such, whether or not the corporation would have the power to indemnify him against such liability under the provisions of this section 23.

For the purpose of this section 23, references to "the corporation" include all constituent corporations absorbed in a consolidation or merger as well as the resulting or surviving corporation so that any person who is or was a director or officer of such a constituent corporation or is or was serving at the request of such constituent corporation as a director or officer of another corporation, partnership, joint venture, trust or other enterprise shall stand in the same position under the provisions of this section 23 with respect to the resulting or surviving corporation as he would if he had served the resulting or surviving corporation in the same capacity.

For purposes of this section 23, the term "other enterprise" shall include employee benefit plans; the term "fines" shall include any excise taxes assessed on a person with respect to an employee benefit plan; and the term "serving at the request of the corporation" shall include any service as a director or officer of the corporation which imposes duties on, or involves services by, such director or officer with respect to an employee benefit plan, its participants, or beneficiaries; and a person who acted in good faith and in a manner he reasonably believed to be in the interest of the participants and beneficiaries of an employee benefit plan shall be deemed to have acted in a manner "not opposed to the best interests of the corporation" as referred to in this section 23.

24. INTERESTS OF DIRECTORS. In case the corporation enters into contracts or transacts business with one or more of its directors, or with any firm of which one or more of its directors are members or with any other corporation or association of which one or more of its directors are members, shareholders, directors or officers, such transaction or transactions shall not be invalidated or in any way affected by the fact that such director or directors have or may have

interests therein which are or might be adverse to the interests of this corporation; provided that such contract or transaction is entered into in good faith and authorized or ratified on behalf of this corporation by the board of directors or by a person or persons (other than the contracting person) having authority to do so, and if the directors or other person or persons so authorizing or ratifying shall then be aware of the interest of such contracting person. In any case in which any transaction described in this section 24 is under consideration by the board of directors, the board may, upon the affirmative vote of a majority of the whole board, exclude from its presence while its deliberations with respect to such transaction are in progress any director deemed by such majority to have an interest in such transaction.

25. COMMITTEES. (a) EXECUTIVE COMMITTEE. The board of directors may, by resolution or resolutions passed by a majority of the whole board, designate an executive committee, such committee to consist of two or more directors of the corporation, which committee, to the extent provided in said resolution or resolutions, shall have and may exercise all of the authority of the board of directors in the management of the corporation. The executive committee shall keep regular minutes of its proceedings and the same shall be recorded in the minute book of the corporation. The secretary or an assistant secretary of the corporation may act as secretary for the committee if the committee so requests.

(b) AUDIT COMMITTEE. The corporation shall maintain an audit committee consisting of at least three directors. No member of the audit committee shall be an employee of the corporation. The audit committee shall use reasonable efforts to effect the establishment and maintenance by the corporation of adequate financial reporting and audit procedures. The audit committee shall annually review and confirm management's proposal for the selection of the corporation's independent public accounting firm and, following completion of such firm's audit examination of the corporation's consolidated financial statements, review with such firm and corporation management, such matters in connection with the audit as deemed necessary and desirable by the audit committee. The audit committee shall have such additional duties, responsibilities, functions and powers as may be delegated to it by the board of directors of the corporation. The audit committee shall be empowered to retain, at the expense of the corporation, independent expert(s) if it deems this to be necessary.

(c) OTHER COMMITTEES. The board of directors may also, by resolution or resolutions passed by a majority of the whole board, designate other committees, with such persons, powers and duties as it deems appropriate and as are not

inconsistent with law.

26. COMPENSATION OF DIRECTORS AND COMMITTEE MEMBERS.

By resolution duly adopted by a majority of the board of directors, directors and members shall be entitled to receive reasonable annual compensation for services rendered to the corporation as such, and a fixed sum and expenses of attendance, if any, may be allowed for attendance at each regular or special meeting of the board or committee; provided that nothing herein contained shall be construed to preclude any director or committee member from serving the corporation in any other capacity and receiving compensation therefor.

OFFICERS

27. (a) ELECTED OFFICERS. The following officers of the corporation shall be chosen or appointed by election by the board of directors, and shall be deemed elected officers: a president, a secretary, and a treasurer; also, if the board desires, a chairman of the board, a vice chairman of the board, one or more vice presidents, one or more assistant secretaries and one or more assistant treasurers. The chairman of the board and the vice chairman of the board shall be deemed executive officers of the corporation, and shall be vested with such powers, duties, and authority as the board of directors may from time to time determine and as may be set forth in these bylaws.

Any two or more of such offices may be held by the same person, except the offices of chairman of the board and vice chairman of the board, president and vice president, and the offices of president and secretary.

An elected officer shall be deemed qualified when he enters upon the duties of the office to which he has been elected and furnishes any bond required by the board; but the board may also require of such person his written acceptance and promise faithfully to discharge the duties of such office.

(b) ELECTION OF OFFICERS. The board of directors at each annual meeting thereof shall elect a president from among their own number. They shall also elect at such time a secretary and a treasurer, who need not be directors. The board then, or from time to time, may elect a chairman of the board, a vice chairman of the board and such vice presidents, assistant secretaries and assistant treasurers as it may deem advisable or necessary.

(c) TERM OF OFFICE. Each elected officer of the corporation shall hold his office for the term for which he was



elected, or until he resigns or is removed by the board, whichever first occurs.

(d) APPOINTMENT OF OFFICERS AND AGENTS - TERMS OF OFFICE. The board from time to time may also appoint such other officers and agents for the corporation as it shall deem necessary or advisable. All appointed officers and agents shall hold their respective positions at the pleasure of the board or for such terms as the board may specify, and they shall exercise such powers and perform such duties as shall be determined from time to time by the board, or by an elected officer empowered by the board to make such determinations.

28. REMOVAL. Any officer or agent elected or appointed by the board of directors, and any employee, may be removed or discharged by the board whenever in its judgment the best interests of the corporation would be served thereby, but such removal shall be without a prejudice to the contract rights, if any, of the person so removed.

29. SALARIES AND COMPENSATION. Salaries and compensation of all elected officers of the corporation shall be fixed, increased or decreased by the board of directors, but this power, except as to the salary or compensation of the chairman of the board, the vice chairman of the board and the president, may, unless prohibited by law, be delegated by the board to the chairman of the board, the vice chairman of the board, the president or a committee. Salaries and compensation of all other appointed officers, agents, and employees of the corporation may be fixed, increased or decreased by the board of directors, but until action is taken with respect thereto by the board of directors, the same may be fixed, increased or decreased by the chairman of the board, by the president or by such other officer or officers as may be empowered by the board of directors to do so.

30. DELEGATION OF AUTHORITY TO HIRE, DISCHARGE, ETC. The board from time to time may delegate to the chairman of the board, the vice chairman of the board, the president or other officer or executive employee of the corporation, authority to hire, discharge, and fix and modify the duties, salary or other compensation of employees of the corporation under their jurisdiction, and the board may delegate to such officer or executive employee similar authority with respect to obtaining and retaining for the corporation the services of attorneys, accountants and other experts.

31. THE CHAIRMAN OF THE BOARD, THE VICE CHAIRMAN OF THE BOARD AND THE PRESIDENT. The chairman of the board or the president shall be elected by the board of directors to be the chief executive officer of the corporation and the chief

executive officer shall have general and active management of the business of the corporation and shall carry into effect all directions and resolutions of the board. The chairman of the board, the vice chairman of the board and the president shall be vested with such powers, duties, and authority as the board of directors may from time to time determine and as may be set forth in these bylaws. Except as otherwise provided for in these bylaws, the chairman of the board, or in his absence the president, shall preside at all meetings of the shareholders of the corporation and at all meetings of the board of directors.

The chairman of the board, vice chairman of the board or president may execute all bonds, notes, debentures, mortgages, and other contracts requiring a seal, under the seal of the corporation and may cause the seal to be affixed thereto, and all other instruments for and in the name of the corporation, except that if by law such instruments are required to be executed only by the president, he shall execute them.

The chairman of the board, vice chairman of the board or president, when authorized so to do by the board, may execute powers of attorney from, for, and in the name of the corporation, to such proper person or persons as he may deem fit, in order that thereby the business of the corporation may be furthered or action taken as may be deemed by him necessary or advisable in furtherance of the interests of the corporation.

The chairman of the board, vice chairman of the board or president, except as may be otherwise directed by the board, shall attend meetings of shareholders of other corporations to represent this corporation thereat and to vote or take action with respect to the shares of any such corporation owned by this corporation in such manner as he shall deem to be for the interests of the corporation or as may be directed by the board.

The chief executive officer shall, unless the board otherwise provides, be an ex officio member of all standing board committees.

The chairman of the board, vice chairman of the board or president shall have such other or further duties and authority as may be prescribed elsewhere in these bylaws or from time to time by the board of directors.

32. VICE PRESIDENTS. The vice presidents in the order of their seniority shall, in the absence, disability or inability to act of the chairman of the board, the vice chairman of the board and the president, perform the duties and exercise the powers of the chairman of the board, the vice chairman of the board and the president, and shall perform such other duties as the board of directors shall from time to time prescribe.

33. THE SECRETARY AND ASSISTANT SECRETARIES. The secretary shall attend all sessions of the board and except as otherwise provided for in these bylaws, all meetings of the shareholders, and shall record or cause to be recorded all votes taken and the minutes of all proceedings in a minute book of the corporation to be kept for that purpose. He shall perform like duties for the executive and other standing committees when requested by the board or such committee to do so.

His shall be the principal responsibility to give, or cause to be given, notice of all meetings of the shareholders and of the board of directors, but this shall not lessen the authority of others to give such notice as is authorized elsewhere in these bylaws.

He shall see that all books, records, lists and information, or duplicates, required to be maintained at the registered or home office of the corporation in Missouri, or elsewhere, are so maintained.

He shall keep in safe custody the seal of the corporation, and when duly authorized to do so shall affix the same to any instrument requiring it, and when so affixed, he shall attest the same by his signature.

He shall perform such other duties and have such other authority as may be prescribed elsewhere in these bylaws or from time to time by the board of directors, the chairman of the board or the president, under whose direct supervision he shall be.

He shall have the general duties, powers and responsibilities of a secretary of a corporation.

The assistant secretaries, in the order of their seniority, in the absence, disability or inability to act of the secretary, shall perform the duties and exercise the powers of the secretary, and shall perform such other duties as the board may from time to time prescribe.

34. THE TREASURER AND ASSISTANT TREASURERS. The treasurer shall have the responsibility for the safekeeping of the funds and securities of the corporation, and shall keep or cause to be kept, full and accurate accounts of receipts and disbursements in books belonging to the corporation. He shall keep, or cause to be kept, all other books of account and accounting records of the corporation, and shall deposit or cause to be deposited all monies and other valuable effects in the name and to the credit of the corporation in such depositories as may be designated by the board of directors.

He shall disburse, or permit to be disbursed, the funds of the corporation as may be ordered, or authorized generally, by the board, and shall render to the chief executive officers of the corporation and the directors whenever they may require it, an account of all his transactions as treasurer and of those under his jurisdiction, and of the financial condition of the corporation.

He shall perform such other duties and shall have such other responsibility and authority as may be prescribed elsewhere in these bylaws or from time to time by the board of directors.

He shall have the general duties, powers and responsibility of a treasurer of a corporation, and shall be the chief financial and accounting officer of the corporation.

The assistant treasurers in the order of their seniority shall, in the absence, disability or inability to act of the treasurer, perform the duties and exercise the powers of the treasurer, and shall perform such other duties as the board of directors shall from time to time prescribe.

35. DUTIES OF OFFICERS MAY BE DELEGATED. If any officer of the corporation be absent or unable to act, or for any other reason that the board may deem sufficient, the board may delegate, for the time being, some or all of the functions, duties, powers and responsibilities of any officer to any other officer, or to any other agent or employee of the corporation or other responsible person, provided a majority of the whole board concurs therein.

#### SHARES OF STOCK

36. CERTIFICATES OF STOCK. The certificates for shares of stock of the corporation shall be numbered, shall be in such form as may be prescribed by the board of directors in conformity with law, and shall be entered into the stock books of the corporation as they are issued, and such entries shall show the name and address of the person, firm, partnership, corporation or association to whom each certificate is issued. Each certificate shall have printed, typed or written thereon the name of the person, firm, partnership, corporation or association to whom it is issued, and number of shares represented thereby and shall be signed by the president or a vice president, and the treasurer or an assistant treasurer or the secretary or an assistant secretary of the corporation, and sealed with the seal of the corporation, which seal may be facsimile, engraved or printed. If the corporation has a registrar, a transfer agent, or a transfer clerk who actually signs such certificates, the signatures of any of the other officers above mentioned may be

facsimile, engraved or printed. In case any such officer who has signed or whose facsimile signature has been placed upon any such certificate shall have ceased to be such officer before such certificate is issued, such certificate may nevertheless be issued by the corporation with the same effect as if such officer were an officer at the date of its issue.

37. TRANSFERS OF SHARES - TRANSFER AGENT - REGISTRAR. Transfers of shares of stock shall be made on the books of the corporation only by the person named in the stock certificate or by his attorney lawfully constituted in writing, and upon surrender of the certificate therefor. The stock record books and other transfer records shall be in the possession of the secretary or of a transfer agent or clerk of the corporation. The corporation by resolution of the board may from time to time appoint a transfer agent and if desired a registrar, under such arrangements and upon such terms and conditions as the board of directors deems advisable; but until and unless the board appoints some other person, firm, or corporation as its transfer agent (and upon the revocation of any such appointment, thereafter until a new appointment is similarly made) the secretary shall be the transfer agent or clerk of the corporation, without the necessity of any formal action of the board of directors and the secretary shall perform all of the duties thereof.

38. LOST CERTIFICATE. In the case of the loss or destruction of any outstanding certificate for shares of stock of the corporation, the corporation may issue a duplicate certificate (plainly marked "duplicate"), in its place, provided the registered owner thereof or his legal representatives furnish due proof of loss thereof by affidavit, and (if required by the board of directors, in its discretion) furnish a bond in such amount and form and with such surety as may be prescribed by the board. In addition, the board of directors may make any other requirements which it deems advisable.

39. CLOSING OF TRANSFER BOOKS. The board of directors shall have power to close the stock transfer books of the corporation for a period not exceeding fifty days preceding the date of any meeting of the shareholders, or the date for payment of any dividend, or the date for the allotment of rights, or any effective date or change or conversion or exchange of capital stock; provided, however, that in lieu of closing the stock transfer books as aforesaid, the board of directors may fix in advance a date, not exceeding fifty days preceding the effective date of any of the above enumerated transactions, as a record date; and in either case such shareholders and only such shareholders as shall be shareholders of record on the date of closing the transfer books, or on the record date so fixed, shall be entitled to receive notice of any such transaction or to

participate in any such transactions notwithstanding any transfer of any share on the books of the corporation after the date of closing the transfer books or such record date so fixed.

#### GENERAL

40. DIVIDENDS. Dividends upon the shares of stock of the corporation, subject to any applicable provisions of the Articles of Incorporation and of any applicable laws or statutes may be declared by the board of directors at any regular or special meeting. Dividends may be paid in cash, in property or in shares of its stock and to the extent and in the manner provided by law out of any available earned surplus or earnings of the corporation. Liquidating dividends or dividends representing a distribution of paid-in surplus or a return of capital shall be made only when and in the manner permitted by law.

41. CREATION OF RESERVES. Before the payment of any dividends, there may be set aside out of any funds of the corporation available for dividends such sum or sums as the board of directors from time to time, in their absolute discretion, think proper as a reserve fund or funds, to meet contingencies, or for equalizing dividends, or for repairing, or maintaining any property of the corporation, or for such other purposes as the board of directors shall think conducive to the interests of the corporation, and the board of directors may abolish any such reserve in the manner in which it was created.

42. FIXING OF CAPITAL, TRANSFERS OF SURPLUS. Except as may be specifically otherwise provided in the Articles of Incorporation, the board of directors is expressly empowered to exercise all authority conferred upon it or the corporation by any law or statute, and in conformity therewith, relative to:

(i) The determination of what part of the consideration received for shares of the corporation shall be capital;

(ii) Increasing or reducing capital;

(iii) Transferring surplus to capital or capital to surplus;

(iv) Allocating capital to shares of a particular class of stock;

(v) The consideration to be received by the corporation for its shares; and

(vi) All similar or related matters;

provided that any concurrent action or consent by or of the corporation and its shareholders required to be taken or given pursuant to law, shall be duly taken or given in connection therewith.

43. CHECKS, NOTES AND MORTGAGES. All checks, drafts, or other instruments for the payment, disbursement, or transfer of monies or funds of the corporation may be signed in its behalf by the treasurer of the corporation, unless otherwise provided by the board of directors. All notes of the corporation and any mortgages or other forms of security given to secure the payment of the same may be signed by the president who may cause to be affixed the corporate seal attested by the secretary or assistant secretary. The board of directors by resolution adopted by a majority of the whole board from time to time may authorize any officer or officers or other responsible person or persons to execute any of the foregoing instruments for and in behalf of the corporation.

44. FISCAL YEAR. The board of directors may fix and from time to time change the fiscal year of the corporation. In the absence of action by the board of directors, the fiscal year shall end each year on the same date which the officers of the corporation elect for the close of its first fiscal period.

45. TRANSACTIONS WITH RELATED PERSONS. The affirmative vote of not less than 80% of the outstanding shares of the corporation entitled to vote in an election of directors shall be required for the approval or authorization of any business transaction with a related person as set forth in the Articles of Incorporation in the manner provided therein.

46. DIRECTOR'S DUTIES; CONSIDERATION OF TENDER OFFERS. The board of directors shall have broad discretion and authority in considering and evaluating tender offers for the stock of this corporation. Directors shall not be liable for breach of their fiduciary duty to the shareholders merely because the board votes to accept an offer that is not the highest price per share, provided, that the directors act in good faith in considering collateral nonprice factors and the impact on constituencies other than the shareholders (i.e., effect on employees, corporate existence, corporate creditors, the community, etc.) and do not act in willful disregard of their duties to the shareholders or with a purpose, direct or indirect, to perpetuate themselves in office as directors of the corporation.

47. AMENDMENT OF BYLAWS. (a) BY DIRECTORS. The board of directors may make, alter, amend, change, add to or repeal these bylaws, or any provision thereof, at any time.

(b) BY SHAREHOLDERS. These bylaws may be amended, modified, altered, or repealed by the shareholders, in whole or in part, only at the annual meeting of shareholders or at the special meeting of shareholders called for such purpose, only upon the affirmative vote of the holders of not less than 80% of the outstanding shares of stock of this corporation entitled to vote generally in the election of directors, provided that an affirmative vote of a majority of the votes entitled to be cast shall be sufficient to approve any such amendment, modification, alteration or repeal that has been adopted by a vote of 80% of the members of the board of directors.

ANNEX I

INDEMNIFICATION AGREEMENT

THIS AGREEMENT is made this \_\_\_\_\_ day of \_\_\_\_\_, 1986, between H & R Block, Inc., a Missouri corporation (the "Company"), and \_\_\_\_\_ (the "Director").

WITNESSETH THAT:

WHEREAS, the Director is a member of the Board of Directors of the Company and in such capacity is performing a valuable service for the Company; and

WHEREAS, under the authority of Section 351.355 of the Missouri Revised Statutes of 1978, as amended to date (the "State Statute"), bylaws have been adopted that provide for the indemnification of the officers, directors, agents and employees of the Company to a greater extent than provided for by Subsections 1 through 3 of such State Statute; and

WHEREAS, the bylaws of the Company and the State Statute specifically provide that they are not exclusive, and thereby contemplate that contracts may be entered into between the Company and the members of its Board of Directors with respect to indemnification of such directors; and

WHEREAS, in accordance with the authorization provided by Subsection 7 of the State Statute, the Company has purchased and presently maintains a policy or policies of Directors or Officers Liability Insurance ("D & O Insurance"), covering certain liabilities that may be incurred by its directors and officers in the performance of their services for the Company; and



WHEREAS, recent developments with respect to the terms and availability of D & O Insurance and with respect to the application, amendment and enforcement of statutory and bylaw indemnification provisions generally have raised questions concerning the adequacy and reliability of the protection afforded to directors thereby; and

WHEREAS, in order to resolve such questions and thereby induce the Director to serve and continue to serve as a member of the Board of Directors of the Company, the Company has determined and agreed to enter into this Agreement with the Director;

NOW, THEREFORE, in consideration of the Director's service and continued service as a director of the Company after the date hereof, the parties hereto agree as follows:

1. INDEMNITY OF THE DIRECTOR. Subject only to the exclusions set forth in Section 3 hereof, the Company hereby agrees as follows:

(a) To hold harmless and indemnify the Director against any and all expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by the Director in connection with any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (including an action by or in the right of the Company or any action accruing prior to the execution of the Agreement) to which the Director is, was or at any time becomes a party, or is threatened to be made a party, by reason of the fact that the Director is, was or at any time becomes a director, officer, employee or agent of the Company, or is or was serving or at any time serves at the request of the Company as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise; and

(b) Otherwise to hold harmless and indemnify the Director to the fullest extent as may be provided to the Director by the Company under the nonexclusivity provisions of Section 23 of the Bylaws and Subsection 6 of the State Statute.

(c) To pay the Director, or such person or entity as the Director may designate, on a continuing and current basis (and in any event not later than ten business days following receipt by the Company of the Director's request for reimbursement) all expenses (including attorneys' fees), costs, fines, etc., incurred by or levied upon the Director in connection with any action, suit or proceeding that may be indemnifiable under the provisions of this Agreement.

2. MAINTENANCE OF INSURANCE AND SELF INSURANCE. (a)

The Company represents that it presently has in force and effect policies of D & O Insurance with insurance companies and in amounts as follows (the "Insurance Policies"):

INSURER -----	AMOUNT -----	COMPANY CONTRIBUTION -----
National Union	\$10,000,000	\$500,000

Unless notification is given to the Director pursuant to the provisions of Section 2(b) hereof, the Company hereby agrees that, so long as the Director continues to serve as a director of the Company (or shall continue at the request of the Company to serve as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise) and thereafter so long as the Director is subject to any possible claim or threatened, pending or completed action, suit or proceeding, whether civil, criminal or investigative by reason of the fact that the Director was a director of the Company (or served in any of said other capacities), the Company will purchase and maintain in effect for the benefit of the

Director one or more valid, binding and enforceable policy or policies of D & O Insurance providing, in all respects, coverage at least comparable to that presently provided pursuant to the Insurance Policies. For purposes of this Agreement, any policy or policies of D & O Insurance purchased to maintain such coverage shall be deemed to be the Insurance Policies.

(b) The Company shall not be required to maintain said Insurance Policies in effect, provided, however, that the Company notifies the Director in writing within five business days after the making of the decision to not renew or replace the Insurance Policies, or any portion of the coverage previously provided by the Insurance Policies.

(c) The maintenance of such insurance shall not diminish, relieve or replace the Company's liability for indemnification under the provisions of the State Statute, the Company's bylaws (the "Bylaws") or this Agreement. The Director's claim for reimbursement in advance of final disposition of an action, suit or proceeding of expenses which may be indemnifiable under the provisions of the State Statute, Bylaws or this Agreement and payable in advance of final disposition of an action pursuant to Subsection 6 of the State Statute, Section 23 of the Bylaws, or Section 1(c) of this Agreement shall not be denied on the basis that such amount may or will be covered by the Insurance Policies, if such payments from the insurance company will not be made to the Director within ten business days of such Director's claim for reimbursement.

3. LIMITATIONS ON ADDITIONAL INDEMNITY. The Company shall be entitled to reimbursement from the Director for all monies paid to him or her as indemnification pursuant to this Agreement under the following circumstances:

(a) to the extent of any costs or expenses the Director is actually reimbursed pursuant to any Insurance Policies purchased and maintained by the Company pursuant to Section 2 hereof;

(b) if it is determined by a final judgment or other final adjudication by a court of competent jurisdiction considering the question of indemnification of the Director that such payment of indemnification is or would be in violation of applicable law;

(c) on account of any suit in which judgment is rendered against the Director for an accounting of profits made from the purchase and sale or sale and purchase by the Director of securities of the Company pursuant to the provisions of Section 16(b) of the Securities Exchange Act of 1934 and amendments thereto;

(d) if the Director's conduct is finally adjudged by a court of competent jurisdiction to have been knowingly fraudulent, deliberately dishonest or to constitute willful misconduct; or

(e) if it is finally determined by a court of competent jurisdiction considering the question that the Director's decision to employ independent legal counsel, pursuant to Section 5(b)(ii) hereof, was not based on a "reasonable" conclusion that there was a conflict of interest between the Company and the Director.

4. CONTINUATION OF INDEMNITY. All agreements and obligations of the Company contained herein shall continue during the period the Director is a director, officer, employee or agent of the Company (or is or was serving at the request of the Company as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise) and shall continue thereafter so long as the Director is subject to any possible claim or threatened, pending or completed action, suit or proceeding, whether civil, criminal or investigative, by reason of the fact that the Director was a director of the Company or serving in any other capacity referred to herein.

5. NOTIFICATION AND DEFENSE OF CLAIM. Promptly after receipt by the Director of notice of the commencement of any

action, suit or proceeding, the Director will, if a claim in respect thereof is to be made against the Company under this Agreement, notify the Company of the commencement thereof; the failure to promptly notify the Company will not relieve the Company from any liability that it may have to the Director hereunder, except to the extent the Company is prejudiced in its defense of such claim as a result of such failure. Unless otherwise requested by the Board, written notification shall not be necessary if the Director informs a majority of the Board of the commencement of any such action, or, independent of such notification by the Director, a majority of the Board has reason to believe such action has been initiated or threatened. With respect to any such action, suit or proceeding as to which the Director notifies (or is deemed to have notified) the Company of the commencement thereof:

(a) The Company will be entitled to participate therein at its own expense;

(b) Except as otherwise provided below, to the extent that it may wish, the Company, jointly with any other indemnifying party similarly notified, will be entitled to assume the defense thereof with counsel reasonably satisfactory to the Director. Subject to the provision below, after notice from the Company to the Director of its election so to assume the defense thereof, the Company will not be liable to the Director under this Agreement for any legal or other expenses subsequently incurred by the Director in connection with the defense thereof other than reasonable costs of investigation or as otherwise provided below. The Director shall have the right to employ his or her own counsel in such action, suit or proceeding, but the fees and expenses of such counsel incurred after notice from the Company of its assumption of the defense thereof shall be at the expense of the Director unless (i) the employment of counsel by

the Director has been authorized by the Company, (ii) the Director reasonably concludes that there may be a conflict of interest between the Company and the Director in the conduct of the defense of such action and that such conflict may lead to exposure for the director not otherwise indemnifiable under the provisions of this Agreement and notifies the Company of such conclusion and decision to employ separate counsel, or (iii) the Company fails to employ counsel to assume the defense of such action, in each case the fees and expenses of counsel shall be at the expense of the Company. The Company shall not be entitled to assume the defense of any action, suit or proceeding brought by or on behalf of the Company or as to which the Director reasonably makes the conclusion provided for in (ii) above; and

(c) The Company shall not be liable to indemnify the Director under this Agreement for any amounts paid in settlement

of any action or claim effected without its written consent. The company shall not settle any action or claim in any manner which would impose any penalty or limitation on the Director without the Director's written consent. Neither the Company nor the Director will unreasonably withhold their consent to any proposed settlement.

6. REPAYMENT OF EXPENSES. The Director agrees that he or she will reimburse the Company for all reasonable expenses paid by the Company in defending any civil or criminal action, suit or proceeding against him or her in the event and only to the extent that it is ultimately determined by a court of competent jurisdiction considering the question that the Director is not entitled to be indemnified by the Company for such expenses under the provisions of the State Statute, the Bylaws, this Agreement or otherwise.

7. ENFORCEMENT. (a) The Company expressly confirms and agrees that it has entered into this Agreement and assumed the obligations imposed on the Company hereby in order to induce the Director to continue as a director of the Company, and acknowledges that the Director is relying upon this Agreement in continuing in such capacity.

(b) In the event the Director is required to bring any action to enforce rights or to collect monies due under this Agreement and is successful in such action, the Company shall reimburse the Director for all of the Director's reasonable fees and expenses (including attorney's fees) in bringing and pursuing such action.

8. SEPARABILITY. Each of the provisions of this Agreement is a separate and distinct agreement and independent of the others, so that if any provision hereof shall be held to be invalid or unenforceable for any reason, such invalidity of unenforceability shall not affect the validity or enforceability of the other provisions hereof.

9. MISCELLANEOUS. (a) This Agreement shall be interpreted and enforced in accordance with the laws of the State of Missouri.

(b) This Agreement shall be binding upon the Director and upon the Company, its successors and assigns, and shall inure to the benefit of the Director, his or her heirs, personal representatives and assigns and to the benefit of the Company, its successors and assigns.

(c) No amendment, modification, termination or cancellation of this Agreement shall be effective unless in writing signed by both parties hereto.

IN WITNESS WHEREOF, the parties hereto have executed  
this Agreement on and as of the day and year first above written.

H & R BLOCK, INC.

By \_\_\_\_\_

By \_\_\_\_\_

\_\_\_\_\_, the

Director

AMENDMENT TO RIGHTS AGREEMENT

THIS AMENDMENT ("Amendment") to Rights Agreement dated as of May 9, 1990 between H & R Block, Inc. a Missouri corporation (the "Company"), and Boatmen's Trust Company (formerly Centerre Trust Company of St. Louis) (the "Rights Agent").

PREMISES

A. The Company and the Rights Agent have previously executed and delivered a Rights Agreement dated July 14, 1988 (the "Rights Agreement").

B. The Company now wishes to amend certain provisions of the Rights Agreement as provided herein.

AGREEMENTS

In consideration of the premises and the mutual agreements set forth in the Rights Agreement and this Amendment, the Company and the Rights Agent hereby agree as follows:

1. Section 1(a) of the Rights Agreement is hereby amended by deleting the percentage "20%" each time such percentage is used in such Section and substituting in place thereof the percentage "10%".

2. Section 3(a) of the Rights Agreement is hereby amended by deleting the words "tenth day" on the third line of such Section and substituting in place thereof the words "tenth Business Day".

3. Section 23(a) of the Rights Agreement is hereby amended by adding the following sentence at the end of such Section:

"The Company may, at its option, pay the Redemption Price in cash, shares of Common Stock (based on the "current market price", as defined in Section 11(f) hereof, of the Common Stock at the time of redemption) or any other form of consideration deemed appropriate by the Board of Directors."

4. The Rights Agreement is hereby amended by renumbering Sections 24 through 32 as Sections 25 through 33 and by adding the following new Section 24:

"Section 24. EXCHANGE. (a) The Board of Directors of the Company may, at its option, at any time after any Person becomes an Acquiring Person, exchange all or part of the then outstanding and exercisable Rights (which shall not include Rights that have become void pursuant to the provisions of Section 7(e) hereof) for Common

Stock at an exchange ratio of one share of Common Stock per Right, appropriately adjusted to reflect any stock split, stock dividend or similar transaction occurring after the date hereof (such exchange ratio being hereinafter referred to as the "Exchange Ratio"). Notwithstanding the foregoing, the Board of Directors shall not be empowered to effect such exchange at any time after any Person (other than the Company, any Subsidiary of the Company, any employee benefit plan of the Company or any such Subsidiary, or any entity holding Common Stock for or pursuant to the terms of any such plan), together with all Affiliates and Associates of such Person, becomes the Beneficial Owner of 50% or more of the Common Stock then outstanding.

(b) Immediately upon the action of the Board of Directors of the Company ordering the exchange of any Rights pursuant to paragraph (a) of this Section 24 and without any further action and without any notice, the right to exercise such Rights shall terminate and the only right thereafter of a holder of such Rights shall be to receive that number of shares of Common Stock equal to the number of such Rights held by such holder multiplied by the Exchange Ratio. The Company shall promptly give public notice of any such exchange; PROVIDED, HOWEVER, that the failure to give, or any defect in, such notice shall not affect the validity of such exchange. The Company promptly shall mail a notice of any such exchange to all of the holders of such Rights at their last addresses as they appear upon the registry books of the Rights Agent. Any notice which is mailed in the manner herein provided shall be deemed given, whether or not the holder receives the notice. Each such notice of exchange will state the method by which the exchange of the Common Stock for Rights will be effected and, in the event of any partial exchange, the number of Rights which will be exchanged. Any partial exchange shall be effected pro rata based on the number of Rights (other than Rights which have become void pursuant to the provisions of Section 7(e) hereof) held by each holder of Rights.

(c) In any exchange pursuant to this Section 24,



the Company, at its option, may substitute common stock equivalents (as such term is defined in Section 11(c) hereof) for some or all of the Common Stock exchangeable for Rights.

(d) In the event that there shall not be sufficient Common Stock or common stock equivalents available to permit any exchange of Rights as contemplated in accordance with this Section 24, the Company shall take all such action as may be necessary to authorize additional Common Stock or common stock equivalents for issuance upon exchange of the Rights.

(e) The Company shall not be required to issue fractions of shares of Common Stock or to distribute certificates which evidence fractional shares of Common Stock. In lieu of such fractional shares of Common Stock, the Company shall pay to the registered holders of the Right Certificates with regard to which such fractional shares of Common Stock would otherwise be issuable an amount in cash equal to the same fraction of the current market value of a whole share of Common Stock. For the purposes of this paragraph (e), the current market value of a whole share of Common Stock shall be the closing price of a share of Common Stock (as determined pursuant to the second sentence of Section 11(f) (i) hereof) for the Trading Day immediately prior to the date of exchange pursuant to this Section 24."

5. Section 29 of the Rights Agreement (Section 30 giving effect to the amendment set forth in Section 4 hereof) is hereby amended by adding the following sentence at the end of such Section:

"Without limiting the foregoing, if any provision requiring that a determination be made by less than the entire Board of Directors (or at a time or with the concurrence of a group of directors consisting of less than the entire Board of Directors) is held by a court of competent jurisdiction or other authority to be invalid, void or unenforceable, such determination shall then be made by the Board of Directors in accordance with applicable law and the Company's Articles of Incorporation and Bylaws."

6. The Rights Agreement is hereby amended by substituting the new Exhibit B attached hereto as Exhibit 1 in place of the Exhibit B attached to the original Rights Agreement.

7. This Amendment may be executed in any number of

counterparts, each of which shall be an original, but such counterparts shall together constitute but one and the same instrument. Terms not defined herein shall, unless the context otherwise requires, have the meanings assigned to such terms in the Rights Agreement.

8. If any provision of this Amendment is held by a court of competent jurisdiction or other authority to be invalid, void or unenforceable, the remainder of the provisions of this Amendment and the Rights Agreement shall remain in full force and effect and shall not be affected, impaired or invalidated thereby, and the provisions of the Rights Agreement amended by the provisions of this Amendment which were so held to be invalid, void or unenforceable shall, without further deed or action, be reinstated as part of the Rights Agreement and shall be in full force and effect as if such invalidated, voided or unenforceable provisions had never been effected by this Amendment.

9. Except as expressly set forth in this Amendment, the Rights Agreement shall remain in full force and effect and shall otherwise be unaffected hereby. This Amendment shall be effective immediately as of the date and year first above written.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed and attested, all as of the date and year first above written.

H & R BLOCK, INC.

By /s/ Donald W. Ayers

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Donald W. Ayers

Attest:

By /s/ William T. Ross

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William T. Ross  
Secretary

BOATMEN'S TRUST COMPANY

By /s/ H. E. Bradford

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H. E. Bradford

Attest:

By /s/

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Assistant Secretary

SECOND AMENDMENT TO RIGHTS AGREEMENT

THIS SECOND AMENDMENT TO RIGHTS AGREEMENT ("Amendment") dated September 11, 1991 between H & R Block, Inc. a Missouri corporation (the "Company"), and Boatmen's Trust Company (formerly Centerre Trust Company of St. Louis) (the "Rights Agent").

PREMISES

A. The Company and the Rights Agent have previously executed and delivered a Rights Agreement dated July 14, 1988 (the "Rights Agreement"), and an Amendment to Rights Agreement dated as of May 9, 1990.

B. Section 26 of the Rights Agreement provides that the Company may from time to time supplement or amend the Rights Agreement in order to cure any ambiguity contained therein.

C. The Company now wishes to amend certain provisions of the Rights Agreement as provided herein in order to clarify certain adjustments to be made as a result of a stock split involving the Company's common stock.

AGREEMENTS

In consideration of the premises and the mutual agreements set forth in the Rights Agreement and this Amendment, the Company and the Rights Agent hereby agree as follows:

1. Section 11(p) of the Rights Agreement is hereby amended by adding the following clause (z) at the end of the first sentence of such Section:

"and (z) the Purchase Price in effect at the time of the record date for such dividend or of the effective date of such subdivision, combination or consolidation shall be proportionately adjusted by multiplying such Purchase Price by the fraction described in clause (x) above."

2. This Amendment may be executed in any number of counterparts, each of which shall be an original, but such counterparts shall together constitute but one and the same instrument. Terms not defined herein shall, unless the context otherwise requires, have the meanings assigned to such terms in the Rights Agreement.

3. If any provision of this Amendment is held by a court of competent jurisdiction or other authority to be invalid, void or unenforceable, the remainder of the provisions of this Amendment and the Rights Agreement shall remain in full force and effect and shall not be affected, impaired or invalidated thereby, and the provisions of the Rights Agreement amended by

the provisions of this Amendment which were so held to be invalid, void or unenforceable shall, without further deed or action, be reinstated as part of the Rights Agreement and shall be in full force and effect as if such invalidated, voided or unenforceable provisions had never been effected by this Amendment.

4. Except as expressly set forth in this Amendment, the Rights Amendment shall remain in full force and effect and shall otherwise be unaffected hereby. This Amendment shall be effective immediately as of the date and year first above written.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed and attested, all as of the date and year first above written.

H & R BLOCK, INC.

By /s/ Henry W. Bloch

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Henry W. Bloch

Attest:

By /s/ James H. Ingraham

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James H. Ingraham  
Secretary

BOATMEN'S TRUST COMPANY

By /s/ H. E. Bradford

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H. E. Bradford

Attest:

By /s/

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Assistant Secretary

THIRD AMENDMENT TO RIGHTS AGREEMENT

THIS THIRD AMENDMENT ("Amendment") TO RIGHTS AGREEMENT dated May 10, 1995 between H & R Block, Inc. a Missouri corporation (the "Company"), and Boatmen's Trust Company (formerly Centerre Trust Company of St. Louis) (the "Rights Agent").

PREMISES

A. The Company and the Rights Agent have previously executed and delivered a Rights Agreement dated July 14, 1988, an Amendment to Rights Agreement dated May 9, 1990, and an Amendment to Rights Agreement dated September 11, 1991 (as amended, the "Rights Agreement").

B. The Company now wishes to further amend certain provisions of the Rights Agreement as provided herein.

AGREEMENTS

In consideration of the premises and the mutual agreements set forth in the Rights Agreement and this Amendment, the Company and the Rights Agent hereby agree as follows:

1. Section 1(b) of the Rights Agreement is hereby amended by adding the following sentence at the end of such Section:

"Notwithstanding the foregoing, if the Board of Directors of the Company determines in good faith that a Person who would otherwise be an "Acquiring Person" as defined pursuant hereto has become such inadvertently and without any intention of changing or influencing control of the Company, and such Person divests as promptly as practicable a sufficient number of shares of Common Stock so that such Person would no longer be an "Acquiring Person" as defined pursuant hereto, then such Person shall not be deemed an "Acquiring Person" for any purposes of this Agreement."

2. Section 1(c) of the Rights Agreement is hereby amended by deleting subsection (i) in its entirety and substituting in place thereof the following subsection (i):

"(i) which such Person or any of such Person's Affiliates or Associates, directly or indirectly,

beneficially owns as determined pursuant to Rule 13d-3 of the General Rules and Regulations under the Exchange Act as in effect on the date hereof."

3. This Amendment may be executed in any number of counterparts, each of which shall be an original, but such counterparts shall together constitute but one and the same instrument. Terms not defined herein shall, unless the context otherwise requires, have the meanings assigned to such terms in the Rights Agreement.

4. If any provision of this Amendment is held by a court of competent jurisdiction or other authority to be invalid, void or unenforceable, the remainder of the provisions of this Amendment and the Rights Agreement shall remain in full force and effect and shall not be affected, impaired or invalidated thereby, and the provisions of the Rights Agreement amended by the provisions of this Amendment which were so held to be invalid, void or unenforceable shall, without further deed or action, be reinstated as part of the Rights Agreement and shall be in full force and effect as if such invalidated, voided or unenforceable provisions had never been effected by this Amendment.

5. Except as expressly set forth in this Amendment, the Rights Agreement shall remain in full force and effect and shall otherwise be unaffected hereby. This Amendment shall be effective immediately as of the date and year first above written.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed and attested, all as of the date and year first above written.

H & R BLOCK, INC.

By /s/ Thomas M. Bloch

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Thomas M. Bloch

Attest:

By /s/ James H. Ingraham

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James H. Ingraham  
Secretary

BOATMEN'S TRUST COMPANY

By /s/ H. E. Bradford

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H. E. Bradford

Attest:

By /s/

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Assistant Secretary



FORM OF  
CERTIFICATE OF DESIGNATION, PREFERENCES AND RIGHTS  
OF PARTICIPATING PREFERRED STOCK

of

H & R BLOCK, INC.

I, Henry W. Bloch, the President of H & R Block, Inc., a corporation organized and existing under The General and Business Corporation Law of the State of Missouri, in accordance with the provisions of Section 351.180.7 thereof, DO HEREBY CERTIFY:

That pursuant to the authority conferred upon the Board of Directors by the Articles of Incorporation, as amended, of the Company, the said Board of Directors on July 14, 1988, adopted the following resolution creating a series of six hundred thousand (600,000) shares of voting Preferred Stock designated as Participating Preferred Stock:

RESOLVED, that pursuant to the authority vested in the Board of Directors of the Company in accordance with the provisions of its Articles of Incorporation, as amended, a series of voting Preferred Stock of the Company be and it is hereby created, and that the designation and amount thereof and the powers, preferences and relative, participating, optional and other special rights of the shares of such series, and the qualifications, limitations or restrictions thereof are as follows:

Section 1. DESIGNATION AND AMOUNT. There shall be a series of the voting preferred stock of the Company which shall be designated as "Participating Preferred Stock," without par value, and the number of shares constituting such series shall be 600,000. Such number of shares may be increased or decreased by resolution of the Board of Directors; provided, that no decrease shall reduce the number of shares of Participating Preferred Stock to a number less than that of the shares then outstanding plus the number of shares issuable upon exercise of outstanding rights, options or warrants or upon conversion of outstanding securities issued by the Company.

Section 2. DIVIDENDS AND DISTRIBUTIONS.

(a) Subject to the rights of the holders of any shares of any series of preferred stock of the Company ranking prior and superior to the Participating Preferred Stock with respect to

dividends, the holders of shares of Participating Preferred Stock, in preference to the holders of shares of Common Stock, without par value (the "Common Stock"), of the Company and of any other junior stock, shall be entitled to receive, when, as and if declared by the Board of Directors out of funds legally available for the purpose, quarterly dividends payable in cash on the first

day of January, April, July and October in each year (each such date being referred to herein as a "Quarterly Dividend Payment Date"), commencing on the first Quarterly Dividend Payment Date after the first issuance of a share or fraction of a share of Participating Preferred Stock, in an amount per share (rounded to the nearest cent) equal to the greater of (a) \$1.00 or (b) subject to the provision for adjustment hereinafter set forth, 100 times the aggregate per share amount of all cash dividends and 100 times the aggregate per share amount (payable in kind) of all non-cash dividends or other distributions, other than a dividend payable in shares of Common Stock or a subdivision of the outstanding shares of Common Stock (by reclassification or otherwise), declared on the Common Stock since the immediately preceding Quarterly Dividend Payment Date or, with respect to the first Quarterly Dividend Payment Date, since the first issuance of any share or fraction of a share of Participating Preferred Stock. In the event the Company shall at any time after July 25, 1988 (the "Rights Declaration Date") declare or pay any dividend on the Common Stock payable in shares of Common Stock, or effect a subdivision or combination or consolidation of the outstanding shares of Common Stock (by reclassification or otherwise than by payment of a dividend in shares of Common Stock) into a greater or lesser number of shares of Common Stock, then in each such case the amount to which holders of shares of Participating Preferred Stock were entitled immediately prior to such event under clause (b) of the preceding sentence shall be adjusted by multiplying such amount by a fraction, the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

(b) The Company shall declare a dividend or distribution on the Participating Preferred Stock as provided in paragraph (a) of this Section immediately after it declares a dividend or distribution on the Common Stock (other than a dividend payable in shares of Common Stock); provided that, in the event no dividend or distribution shall have been declared on the Common Stock during the period between any Quarterly Dividend Payment Date and the next subsequent Quarterly Dividend Payment Date, a dividend of \$1.00 per share on the Participating Preferred Stock shall nevertheless be payable on such subsequent Quarterly Dividend Payment Date.

(c) Dividends shall begin to accrue and be cumulative on outstanding shares of Participating Preferred Stock from the Quarterly Dividend Payment Date next preceding the date of issue of such shares, unless the date of issue of such shares is prior to the record date for the first Quarterly Dividend Payment Date, in which case dividends on such shares shall begin to accrue from the date of issue of such shares, or unless the date of issue is a Quarterly Dividend Payment Date or is a date after the record date for the determination of holders of shares of Participating Preferred Stock entitled to receive a quarterly dividend and before such Quarterly Dividend Payment Date, in either of which events such dividends shall begin to accrue and be cumulative from such Quarterly Dividend Payment Date. Accrued but unpaid

dividends shall not bear interest. Dividends paid on the shares of Participating Preferred Stock in an amount less than the total amount of such dividends at the time accrued and payable on such shares shall be allocated pro rata on a share-by-share basis among all such shares at the time outstanding. The Board of Directors may fix a record date for the determination of holders of shares of Participating Preferred Stock entitled to receive payment of a dividend or distribution declared thereon, which record date shall be not more than sixty days prior to the date fixed for the payment thereof.

Section 3. VOTING RIGHTS. The holders of shares of Participating Preferred Stock shall have the following voting rights:

(a) Each share of Participating Preferred Stock shall entitle the holder thereof to 100 votes on all matters submitted to a vote of the stockholders of the Company.

(b) Except as otherwise provided herein, in the Company's Articles of Incorporation or by law, the holders of shares of Participating Preferred Stock, the holders of shares of Common Stock, and the holders of shares of any other capital stock of the Company having general voting rights, shall vote together as one class on all matters submitted to a vote of stockholders of the Company.

(c) Except as otherwise set forth herein or in the Company's Articles of Incorporation, and except as otherwise provided by law, holders of Participating Preferred Stock shall have no special voting rights and their consent shall not be required (except to the extent they are entitled to vote with holders of Common Stock as set forth herein) for taking any corporate action.

Section 4. CERTAIN RESTRICTIONS.

(a) Whenever quarterly dividends or other dividends or distributions payable on the Participating Preferred Stock as provided in Section 2 are in arrears, thereafter and until all accrued and unpaid dividends and distributions, whether or not declared, on shares of Participating Preferred Stock outstanding shall have been paid in full, the Company shall not:

(i) declare or pay dividends on, make any other distributions on, or redeem or purchase or otherwise acquire for consideration any shares of stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Participating Preferred Stock;

(ii) declare or pay dividends on or make any other distributions on any shares of stock ranking on a parity (either as to dividends or upon liquidation, dissolution or winding up) with the Participating Preferred Stock, except dividends paid ratably on the Participating

Preferred Stock and all such parity stock on which dividends are payable or in arrears in proportion to the total amounts to which the holders of all such shares are then entitled;

(iii) except as permitted in Section 4(a)(iv) below, redeem or purchase or otherwise acquire for consideration shares of any stock ranking on a parity (either as to dividends or upon liquidation, dissolution or winding up) with the Participating Preferred Stock, provided that the Company may at any time redeem, purchase or otherwise acquire shares of any such parity stock in exchange for shares of any stock of the Company ranking junior (either as to dividends or upon dissolution, liquidation or winding up) to the Participating Preferred Stock; or

(iv) purchase or otherwise acquire for consideration any shares of Participating Preferred Stock, or any shares of stock ranking on a parity with the Participating Preferred Stock, except in accordance with a purchase offer made in writing or by publication (as determined by the Board of Directors) to all holders of such shares upon such terms as the Board of Directors, after consideration of the respective annual dividend rates and other relative rights and preferences of the respective series and classes, shall determine in good faith will result in fair and equitable treatment among the respective series or classes.

(b) The Company shall not permit any subsidiary of the

Company to purchase or otherwise acquire for consideration any shares of stock of the Company unless the Company could, under paragraph (a) of this Section 4, purchase or otherwise acquire such shares at such time and in such manner.

Section 5. REACQUIRED SHARES. Any shares of Participating Preferred Stock purchased or otherwise acquired by the Company in any manner whatsoever shall be retired and cancelled promptly after the acquisition thereof. The Company shall cause all such shares upon their cancellation to be authorized but unissued shares of Preferred Stock which may be reissued as part of a new series of Preferred Stock to be created by resolution or resolutions of the Board of Directors, subject to the conditions and restrictions on issuance set forth herein.

Section 6. LIQUIDATION, DISSOLUTION OR WINDING UP.

(a) Upon any liquidation (voluntary or otherwise), dissolution or winding up of the Company, no distribution shall be made to the holders of shares of stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Participating Preferred Stock unless, prior thereto, the holders of shares of Participating Preferred Stock shall have received per share, the greater of \$100.00 or 100 times the payment made per share of Common Stock, plus an amount equal to accrued and unpaid dividends and distributions thereon, whether or not

declared, to the date of such payment (the "Liquidation Preference"). Following the payment of the full amount of the Liquidation Preference, no additional distributions shall be made to the holders of shares of Participating Preferred Stock, unless, prior thereto, the holders of shares of Common Stock shall have received an amount per share (the "Common Adjustment") equal to the quotient obtained by dividing (i) the Liquidation Preference by (ii) 100 (as appropriately adjusted as set forth in subparagraph C below to reflect such events as stock dividends, and subdivisions, combinations and consolidations with respect to the Common Stock) (such number in clause (ii) being referred to as the "Adjustment Number"). Following the payment of the full amount of the Liquidation Preference and the Common Adjustment in respect of all outstanding shares of Participating Preferred Stock and Common Stock, respectively, holders of Participating Preferred Stock and holders of shares of Common Stock shall receive their ratable and proportionate share of the remaining assets to be distributed in the ratio of the Adjustment Number to 1 with respect to such Participating Preferred Stock and Common Stock, on a per share basis, respectively.

(b) In the event there are not sufficient assets available to permit payment in full of the Liquidation Preference and the liquidation preferences of all other series of preferred stock, if any, which rank on a parity with the Participating

Preferred Stock, then such remaining assets shall be distributed ratably to the holders of such parity shares in proportion to their respective liquidation preferences. In the event there are not sufficient assets available to permit payment in full of the Common Adjustment, then such remaining assets shall be distributed ratably to the holders of Common Stock.

(c) In the event the Company shall at any time after the Rights Declaration Date declare or pay any dividend on Common Stock payable in shares of Common Stock, or effect a subdivision or combination or consolidation of the outstanding shares of Common Stock (by reclassification or otherwise than by payment of a dividend in shares of Common Stock) into a greater or lesser number of shares of Common Stock, then in each such case the Adjustment Number in effect immediately prior to such event shall be adjusted by multiplying such Adjustment Number by a fraction, the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that are outstanding immediately prior to such event.

Section 7. CONSOLIDATION, MERGER, ETC. In case the Company shall enter into any consolidation, merger, combination or other transaction in which the shares of Common Stock are exchanged for or changed into other stock or securities, cash and/or any other property, then in any such case the shares of Participating Preferred Stock shall at the same time be similarly exchanged or changed in an amount per share (subject to the provision for adjustment hereinafter set forth) equal to 100 times the aggregate amount of stock, securities, cash and/or any other property (payable in kind), as the case may be, into which

or for which each share of Common Stock is exchanged or changed. In the event the Company shall at any time after the Rights Declaration Date declare or pay any dividend on Common Stock payable in shares of Common Stock, or effect a subdivision or combination or consolidation of the outstanding shares of Common Stock (by reclassification or otherwise than by payment of a dividend in shares of Common Stock) into a greater or lesser number of shares of Common Stock, then in each such case the amount set forth in the preceding sentence with respect to the exchange or change of shares of Participating Preferred Stock shall be adjusted by multiplying such amount by a fraction, the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that are outstanding immediately prior to such event.

Section 8. REDEMPTION. The shares of Participating Preferred Stock shall not be redeemable.

Section 9. RANKING. The Participation Preferred Stock shall rank junior to all other series of the Company's Preferred Stock as to the payment of dividends and the distribution of assets, unless the terms of any such series shall provide otherwise.

Section 10. AMENDMENT. The Articles of Incorporation of the Company shall not be further amended in any manner which would materially alter or change the powers, preferences or special rights of the Participating Preferred Stock so as to affect them adversely without the affirmative vote of the holders of a majority or more of the outstanding shares of Participating Preferred Stock voting separately as a class.

Section 11. FRACTIONAL SHARES. Participating Preferred Stock may be issued in fractions of a share which shall entitle the holder, in proportion to such holder's fractional shares, to exercise voting rights, receive dividends, participate in distributions and to have the benefit of all other rights of holders of Participating Preferred Stock.

IN WITNESS WHEREOF, I have executed and subscribed this Certificate and do affirm and acknowledge the foregoing as true under the penalties of perjury this 26th day of July, 1988.

H & R Block, Inc.

By /s/ Henry W. Bloch  
-----  
Henry W. Bloch, President

FILED AND CERTIFICATE  
ISSUED  
JUL 27 1988  
/s/ Roy D. Blunt  
Corporation Dept. SECRETARY OF STATE

STATE OF MISSOURI )  
                          ) ss.  
CITY OF KANSAS CITY )

On this 26th day of July, 1988, before me, Henry W. Bloch, a Notary Public in and for the State of Missouri, personally appeared Henry W. Bloch, President of H & R Block, Inc., known to me to be the person who executed the foregoing Certificate of Designation and acknowledged to me that he executed the same pursuant to authority given by the Board of Directors of such corporation as their free and voluntary act,

and as the free and voluntary act and deed of such corporation,  
for the uses and purposes therein set forth.

/s/ Tina M. Cummings

-----  
Tina M. Cummings  
Notary Public

My commission expires:

TINA M. CUMMINGS  
Notary Public - State of Missouri  
Commissioned in Jackson County  
My Commission Expires May 5, 1991

FILED  
JUL 27 1988  
/s/ Roy D. Blunt  
Secretary of State



CERTIFICATE OF DESIGNATION, PREFERENCES AND RIGHTS  
OF DELAYED CONVERTIBLE PREFERRED STOCK  
OF  
H & R BLOCK, INC.

Pursuant to the provisions of Section 351.180.7 of The General and Business Corporation Law of Missouri, the undersigned, Thomas M. Bloch, President, and James H. Ingraham, Secretary, of H & R Block, Inc., a Missouri corporation, hereby certifies as follows:

FIRST: Pursuant to the authority conferred upon the Board of Directors in Article Three of the Amended and Restated Articles of Incorporation of this Corporation, the Corporation is authorized to issue 6,000,000 shares of Preferred Stock, without par value (the "Preferred Stock"), in series, and the Board of Directors of the Corporation is expressly authorized to fix, to the extent permitted by the laws of the State of Missouri and such Article Three, the powers, designations, preferences and relative, participating, optional and other special rights of each such series, and the qualifications, limitations and restrictions thereof.

SECOND: The Board of Directors of the Corporation on July 14, 1988, created a series of Six Hundred Thousand (600,000) shares of voting Preferred Stock designated as Participating Preferred Stock. The number of shares of Preferred Stock authorized and unissued immediately prior to the adoption of the following resolution is 6,000,000.

THIRD: The Board of Directors of this Corporation on March 8, 1995, adopted the following resolution creating a series of Five Hundred Thousand (500,000) shares of non-voting Preferred Stock designated as "Delayed Convertible Preferred Stock", and fixing the powers, designations, preferences and relative, participating, optional and other special rights of the "Delayed Convertible Preferred Stock", and the qualifications, limitations and restrictions thereof:

"RESOLVED, Pursuant to Article Three of the Amended and Restated Articles of Incorporation of this Corporation, the Board of Directors hereby provides for and authorizes the issuance of a series of Preferred Stock to consist of Five Hundred Thousand (500,000) shares and to be designated as "Delayed Convertible Preferred Stock", and hereby fixes the powers, designation, preferences and relative, participating, optional and other special rights of the "Delayed Convertible Preferred Stock", and

the qualifications, limitations and restrictions thereof, as follows:

1. DESIGNATION AND AMOUNT. There shall be a series of non-voting Preferred Stock, the designation of which shall be Delayed Convertible Preferred Stock (the "Delayed Convertible Preferred Stock"), without par value, and the number of authorized shares constituting such series shall be 500,000. Each share of Delayed Convertible Preferred Stock shall rank equally in all respects.

2. VOTING RIGHTS. The holders of Delayed Convertible Preferred Stock shall have no voting power whatsoever, and no holder of Delayed Convertible Preferred Stock shall vote on or otherwise participate in any proceedings in which actions shall be taken by the Corporation or the shareholders thereof or be entitled to notification as to any meeting of the Board of Directors or the shareholders.

3. DIVIDENDS. The holders of Delayed Convertible Preferred Stock shall not be entitled to receive any dividends payable in cash, property or securities.

4. LIMITATION OF TRANSFERABILITY. Any shares of Delayed Convertible Preferred Stock issued hereunder shall not be transferred, assigned, pledged, or hypothecated in any way by the holders of such shares except upon death by will or the laws of descent and distribution, provided, however, that the Corporation shall have the right to repurchase any such shares in the event that the holder thereof shall cease to be employed by the Corporation or any of the Corporation's affiliates for certain reasons (not including death, disability or termination by the Corporation or any of the Corporation's affiliates without cause) prior to the Convertibility Date, as provided in the Stock Purchase Agreement executed in connection with the Merger (as such terms are defined in the Agreement and Plan of Merger dated March 10, 1995 by and among the Corporation, CompuServe Incorporated, SI Acquisition Corp., SPRY, Inc. and David Pool, such agreement, the "Merger Agreement").

5. CONVERSION PRIVILEGE. The holders of the Delayed Convertible Preferred Stock shall have the right to convert such Delayed Convertible Preferred Stock on and subject to the following terms and conditions:

(a) Effective the date beginning three years and one day after the Effective Time of the Merger (as defined in the Merger Agreement), at the option of the holder of each share of Delayed Convertible Preferred Stock, shall be convertible into four fully paid and nonassessable shares of Common Stock of the Corporation, subject to adjustment as hereinafter provided (the "Conversion Ratio").

(b) In order to exercise the conversion right, the holder of any shares of Delayed Convertible Preferred Stock to be converted shall surrender, the certificate or certificates representing such shares for conversion to an agent designated by the Corporation (the "Agent"), and shall give written notice to such Agent that the holder elects to convert such shares of Delayed Convertible Preferred Stock. Such notice shall also state whether any shares of Delayed Convertible Preferred Stock represented by the tendered certificate or certificates, if any, are not to be converted. Any certificate for Common Stock issuable upon conversion of Delayed Convertible Preferred Stock, together with any certificate for Delayed Convertible Preferred Stock representing the number of unconverted shares, if any ("balance certificate") shall be issued in the same name as the record holder of the certificate for Delayed Convertible Stock tendered for conversion. Certificates for Common Stock and any balance certificates shall not be issued unless the certificate for Delayed Convertible Preferred Stock tendered for conversion is duly endorsed by, or accompanied by instruments of transfer in form satisfactory to the Agent duly executed by, the record holder or his duly authorized attorney.

(c) As soon as practicable after the receipt of the certificates representing the shares surrendered for conversion, accompanied by the notice required by subsection (b), the Corporation shall cause to be issued and delivered to the record holder of the shares so surrendered for

conversion, a certificate or certificates for the number of full shares of Common Stock issuable upon the conversion of such shares of Delayed Convertible Preferred Stock and a balance certificate, if any. Such conversion shall be deemed to have been effected on the date on which the Agent shall have received such certificates representing shares of Delayed Convertible Preferred Stock.

(d) The Corporation shall not be required to issue fractional shares of Delayed Convertible Preferred Stock or of Common Stock or scrip upon conversion of shares of Delayed Convertible Preferred Stock. If certificates representing more than one share

of Delayed Convertible Preferred Stock shall be surrendered for conversion at one time by the same holder, the number of all shares issuable by the Corporation upon conversion thereof shall be computed on the basis of the aggregate number of shares of Delayed Convertible Preferred Stock surrendered for conversion.

(e) In case the Corporation shall (i) declare a dividend, or make a distribution on shares of its Common Stock, in shares of its Common Stock, (ii) subdivide its outstanding shares of Common Stock into a greater number of shares of Common Stock, (iii) combine its outstanding shares of Common Stock into a smaller number of shares of Common Stock, or (iv) make any other change affecting the Common Stock as a class without receipt of consideration, the Conversion Ratio shall be adjusted to the extent necessary to prevent dilution or enlargement of the conversion rights granted to the holders of the Delayed Convertible Preferred Stock hereunder.

(f) In case the Corporation shall merge or consolidate with another corporation or entity whereupon the Corporation shall not be the surviving entity thereof, the Delayed Convertible Preferred Stock shall become convertible into the type and number of shares of the surviving entity or property (including cash) in the same manner as the Common Stock of the Corporation but otherwise

subject to the same terms and conditions provided herein.

(g) The Corporation shall at all times provide, free from preemptive rights, out of its authorized but unissued shares, or out of shares held in its treasury, shares of Common Stock into which the outstanding shares of Delayed Convertible Preferred Stock are then convertible sufficient to provide for the conversion thereof. If any shares of Common Stock to be provided for the purpose of conversion of Delayed Convertible Preferred Stock require registration with or approval of any governmental authority under any federal or state law, before such shares may be validly issued upon conversion, then the Corporation covenants that it will in good faith and as expeditiously as possible endeavor to secure such registration or approval as the case may be. The Corporation covenants that all shares of Common Stock

which may be issued upon conversion of the Delayed Convertible Preferred Stock will be upon the issuance thereof be fully paid and nonassessable and free from all taxes, liens and charges with respect to the issue thereof.

6. DISSOLUTION, LIQUIDATION OR WINDING-UP. In the event of any dissolution, liquidation or winding-up of the Corporation, whether voluntary or involuntary, the holders of all of the shares of Delayed Convertible Preferred Stock then outstanding shall be entitled to share ratably with the holders of all of the shares of Common Stock then outstanding in the assets of the Corporation remaining after any distribution or payments are made to the Participating Preferred Stock or any other class or series of stock of the Corporation with preference over the Common Stock. Neither the consolidation nor merger of the Corporation into or with any other corporation, nor the sale or transfer by the Corporation of all or any part of its assets, nor the reduction of the capital stock of the Corporation, shall be deemed to be a liquidation, dissolution or winding-up of the Corporation within the meaning of any of the provisions of this paragraph.

"FURTHER RESOLVED, that the proper officers of the

Corporation be, and each of them hereby is, authorized and directed to file a Certificate of Designation with the Missouri Secretary of State and to take all other actions necessary or desirable, in their sole discretion, to effect the purposes and intent of the foregoing resolution."

IN WITNESS WHEREOF, the undersigned Corporation has caused this Certificate to be executed by its President and Secretary and affixed the seal of the Corporation this 16th day of March, 1995.

H & R Block, Inc.

By: /s/ Thomas M. Bloch  
-----  
Thomas M. Bloch, President

By: /s/ James H. Ingraham  
-----  
James H. Ingraham, Secretary

(Corporate Seal)

STATE OF MISSOURI )  
                          ) ss  
COUNTY OF JACKSON )

I, Philip Alan Reicher, a Notary Public, do hereby certify that on this 16th day of March, 1995, personally appeared Thomas M. Bloch, who, being by me first duly sworn, declared that he is the President of H & R Block, Inc., that he signed the foregoing certificate as President of the Corporation, and that the statements therein contained are true.

/s/ Philip Alan Reicher  
-----  
Notary Public

My appointment or commission expires 8/7/97.

(NOTARIAL SEAL)

"NOTARY SEAL"  
Philip Alan Reicher, Notary Public

Jackson County, State of Missouri  
My Commission Expires 8/7/97

FILED AND CERTIFICATE  
ISSUED

MAR 17 1995

/s/ Rebecca McDowell Cook  
SECRETARY OF STATE

H & R BLOCK, INC.

RETIREMENT PLAN  
FOR NON-EMPLOYEE DIRECTORS

(Adopted March 2, 1988 and amended  
and restated June 29, 1988)

The Retirement Plan (the "Plan") for Non-Employee Directors of H & R Block, Inc. (the "Company") is adopted effective March 1, 1988.

1. PURPOSES. The purposes of the Retirement Plan for Non-Employee Directors of H & R Block, Inc. are to provide incentives and rewards to Non-Employee Directors, to assist the Company in attracting and retaining Non-Employee Directors with experience and ability, and to provide for the orderly retirement of Non-Employee Directors.

2. STATEMENT OF RETIREMENT POLICY. It shall be the policy of the Company that a Non-Employee Director of the Company shall be retired as of the Annual Meeting of Shareholders of the Company next following the date on which the Director attains the age of 72 years.

3. ELIGIBILITY FOR BENEFITS. A Director shall be eligible for benefits under this Plan if and only if he satisfies the criteria of Section 3(a) or 3(b) of the Plan.

(a) (i) The Director shall have been retired as a Director of the Company as of either (A) the Annual Meeting of Shareholders of the Company next following the date on which such Director attains the age of 72 years, or (B) the meeting of the Board of Directors at which the Board determines that the Director has suffered a permanent and total disability as defined in Section 22(e)(3) of the Internal Revenue Code, or any corresponding provision of succeeding law;

(ii) as of the date of his retirement, he shall have continuously served as a Director of the Company for a period of not less than 5 years; and

(iii) he shall not at any time have been an employee of the Company or any of its direct or indirect subsidiaries.

(b) (i) The Director shall have been a Director of



the Company prior to a change in control of the Company (as defined in Section 10 of this Plan) and shall have ceased to be a Director of the Company for any reason whatsoever within one year after a change in control of the Company (as defined in Section 10 of this Plan); and

(ii) he shall not any time have been an employee of the Company or any of its direct or indirect subsidiaries.

If a Director does not meet the eligibility criteria of Section 3(a) or 3(b) of this Plan, then he shall not be entitled to any benefit whatsoever under this Plan.

4. BENEFIT AMOUNT. The annual benefit under this Plan shall be an amount equal to the largest annual director's fees (excluding meeting fees or other special fees) paid by the Company at any time during the year preceding the date on which the Director retires or ceases to be a Director of the Company. The annual benefit shall be payable for the term set forth in Section 5 of this Plan.

5. PAYMENT OF BENEFIT. (a) In the case of a retirement by a Director under the circumstances described in Section 3(a), the benefit shall be payable in quarter-annual installments, commencing 90 days following the date of the Director's retirement and continuing quarterly thereafter for the life of the Director.

(b) In the case of a Director ceasing to be a Director under the circumstances described in Section 3(b), the benefit shall be payable in quarter-annual installments, commencing 90 days after the Director ceases to be a Director of the Company and continuing quarterly thereafter for a term equal to the shortest of the following: (i) the term during which the Director served as a Director of the Company, (ii) the life of the Director, or (iii) if the benefit payable hereunder would otherwise constitute a "parachute payment," the longest term during which the aggregate "present value" of the payments hereunder would be less than three times the Director's "base amount". For purposes of this Section 5(b)(iii), the terms "parachute payment," "present value" and "base amount" shall have the meanings set forth in Sections 280G(b)(2)(A), 280G(d)(4) and 280G(b)(3) of the Internal Revenue Code, or any corresponding provision of succeeding law.

6. EFFECT OF DEATH. The Director shall be entitled to the full quarter-annual installment of his benefit for the quarter in which he dies, which shall be paid to his Estate. Except for such installment, the benefits paid hereunder shall automatically terminate upon the death of the Director, and no benefits shall be paid to any other person.

7. NO ASSIGNMENT. No right or interest in or to benefits under this Plan shall be assignable or transferrable or shall be subject to any lien, obligation or liability of any Director or any other person.

8. ADMINISTRATION. This Plan shall be administered by the Vice President-Finance of the Company or such other officer of the Company as may be designated by the Chief Executive Officer of the Company. The Plan Administrator's decisions regarding interpretation and application of the Plan shall be

binding on all parties. The costs and expenses of administering the Plan shall be borne by the Company. The Company shall not be required to establish any special or separate fund or to make any other segregation of assets to assure the payment of any benefit under the Plan.

9. DISCRETION TO AMEND OR TERMINATE. (a) This Plan shall remain in effect until and unless terminated by the Board of Directors of the Company.

(b) Except as provided in Section 9(c) of this Plan, the Board of Directors reserves the right, in its sole and absolute discretion, to alter, amend, suspend or terminate this Plan at any time. In any such event, no Director then serving on the Board of Directors shall have any vested right or interest in any benefit whatsoever which might have otherwise been paid under this Plan; provided, however, that any former Director receiving or entitled to receive benefits under this Plan at the time of any such event shall not be affected and such former Director shall receive his benefit during his lifetime.

(c) If a change in control of the Company (as defined in Section 10 of this Plan) occurs, then each and every Director who is a Director on the day immediately preceding the change in control of the Company (as defined in Section 10 of this Plan) shall be 100% vested in all benefits payable under this Plan and the Board of Directors shall not have the right or power to alter, amend, suspend or terminate this Plan in any way which would reduce, eliminate, defer or otherwise adversely affect the benefits payable to such Directors.

10. CHANGE IN CONTROL OF THE COMPANY.

(a) "Change in control of the Company" means (i) a tender offer, stock purchase or series of stock purchases which result in any Person becoming the beneficial owner (as defined on June 1, 1983, in Rule 13d-3 under the Securities Exchange Act of 1934 (the "Exchange Act")) of 15% or more of the outstanding shares of the Company entitled to vote for the election of

directors, or (ii) the election of a member or members of the Board of Directors of the Company who was or were not nominated to serve as a director or directors by the Board of Directors or the Nominating Committee of the Board of Directors of the Company, unless at least two-thirds of the Company's Continuing Directors vote to approve such tender offer, stock purchase, series of stock purchases or election.

(b) "Person" means and any individual, corporation, partnership or other person or entity, and its Affiliates and Associates (as defined on June 1, 1983, in Rule 12b-2 under the Exchange Act).

(c) "Continuing Director" means (i) any member of the Board of Directors of the Company who was nominated to serve as a director by the Board of Directors or the Nominating Committee of the Board of Directors of the Company, and (ii) and other member of the Board of Directors whose election was approved by a vote of a majority of the Continuing Directors.

11. NO FURTHER OBLIGATION. Nothing in this Plan is intended or shall be construed to impose upon the Company any obligation whatsoever to continue any Director as a Director of the Company or to nominate any Director for election or reelection as a Director of the Company.

Exhibit 11

<TABLE>

CALCULATION OF PRIMARY EARNINGS PER SHARE

<CAPTION>

	Year Ended April 30,		
	1995	1994	1993
<S>	<C>	<C>	<C>
Net earnings	\$107,259,000	\$200,528,000	\$180,705,000
Weighted average number of shares outstanding - primary: Weighted average number of common shares outstanding	105,029,000	105,882,000	106,579,000
Dilutive effect of stock options after application of treasury stock method	708,000	887,000	1,065,000
Dilutive effect of Convertible Preferred Stock	134,000	-	-
Weighted average number of shares outstanding	105,871,000	106,769,000	107,644,000
Earnings per share: Primary	\$1.01	\$1.88	\$1.68

</TABLE>

Exhibit 11

<TABLE>

CALCULATION OF FULLY DILUTED EARNINGS PER SHARE

<CAPTION>

	Year Ended April 30,		
	1995	1994	1993
<S>	<C>	<C>	<C>
Net earnings	\$107,259,000	\$200,528,000	\$180,705,000
Weighted average number of shares outstanding - fully diluted: Shares used in calculating primary earnings per share	105,871,000	106,769,000	107,644,000
Additional effect of stock options after application of treasury stock method	155,000	203,000	-
Weighted average number of shares outstanding	106,026,000	106,972,000	107,644,000
Earnings per share: Fully diluted	\$1.01	\$1.87	\$1.68

</TABLE>

&lt;TABLE&gt;

## COMMON STOCK DATA

&lt;CAPTION&gt;

	Stock Price		Cash Dividend Paid per Share
	High	Low	
<S>	<C>	<C>	<C>
1994 FISCAL YEAR:			
Quarter ended 7/31/93	37 1/2	31 7/8	.25
Quarter ended 10/31/93	41 1/2	35 3/4	.28
Quarter ended 1/31/94	44 1/2	37 5/8	.28
Quarter ended 4/30/94	48 3/4	41 3/4	.28
1995 FISCAL YEAR:			
Quarter ended 7/31/94	44 5/8	37 1/2	.28
Quarter ended 10/31/94	47 1/2	39	.31 1/4
Quarter ended 1/31/95	44 3/4	33	.31 1/4
Quarter ended 4/30/95	46 5/8	34 3/4	.31 1/4

&lt;FN&gt;

Traded on the New York Stock Exchange; Ticker Symbol: HRB

&lt;/FN&gt;

&lt;/TABLE&gt;

&lt;TABLE&gt;

## SELECTED FINANCIAL DATA

In thousands, except per share amounts and number of shareholders

&lt;CAPTION&gt;

	Year Ended April 30				
	1995	1994	1993	1992	1991
	<C>	<C>	<C>	<C>	<C>
<S>					
FOR THE YEAR:					
Total revenues	\$1,360,318	\$1,238,677	\$1,074,263	\$986,109	\$ 925,262
Net earnings from continuing operations before charge for purchased research and development	\$ 190,767	\$ 189,067	\$ 171,017	\$153,744	\$ 131,255
Net earnings from continuing operations<F1>	\$ 107,259	\$ 163,995	\$ 171,017	\$153,744	\$ 131,255
Net earnings<F1>	\$ 107,259	\$ 200,528	\$ 180,705	\$162,253	\$ 140,108
AT YEAR END:					
Total assets	\$1,078,038	\$1,074,704	\$1,005,834	\$962,664	\$1,035,781
Cash and marketable securities	\$ 444,981	\$ 620,091	\$ 439,526	\$391,386	\$ 354,916
Stockholders' equity	\$ 685,865	\$ 707,875	\$ 650,488	\$613,713	\$ 573,589
Shares outstanding	104,863	106,149	106,355	106,598	106,487
Number of shareholders	38,053	35,514	33,457	31,520	25,328
MEASUREMENTS:					
Per share of common stock:					
Net earnings from continuing operations before charge for purchased research and development	\$1.80	\$1.77	\$1.59	\$1.41	\$1.22
Net earnings from continuing operations<F1>	\$1.01	\$1.54	\$1.59	\$1.41	\$1.22
Net earnings<F1>	\$1.01	\$1.88	\$1.68	\$1.49	\$1.31
Cash dividends declared	\$1.21 3/4	\$1.09	\$ .97	\$ .85 1/2	\$ .74 1/2
Net tangible book value	\$5.79	\$6.03	\$4.93	\$4.61	\$4.28
Return on total revenues<F2>	14.0%	15.3%	15.9%	15.6%	14.2%
Return on beginning stockholders' equity	15.2%	30.8%	29.4%	28.3%	27.8%

&lt;FN&gt;

<F1>Fiscal 1995 and 1994 include charges to earnings of \$83,508 (\$.79 per share) and \$25,072 (\$.24 per share), respectively, for purchased research and development in connection with acquisitions which are not deductible for income tax purposes. See notes to consolidated financial statements.

<F2>Before charge for purchased research and development.

&lt;/FN&gt;

&lt;/TABLE&gt;

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS

## SIGNIFICANT ITEMS

Fiscal 1995 results were affected by two significant items: the actions taken by the Internal Revenue Service (IRS) beginning in late October to reduce taxpayer fraud and a charge to earnings for purchased research and development in connection with the acquisition in April of SPRY, Inc., a leading provider of Internet products.

On October 26, 1994, the IRS announced that it would eliminate the Direct Deposit Indicator (DDI) as a result of concerns relating to fraudulent tax refund claims. Previously, the IRS used the DDI to notify the electronic filer after receiving the taxpayer's electronically filed tax return that the direct deposit of the refund would be honored. The DDI was a key element of the Refund Anticipation Loan (RAL) program because it minimized loan losses and thus encouraged participating financial institutions to make RALs under relatively favorable terms to taxpayers. RALs are loans

made by financial institutions that are expected to be retired by an income tax refund. In addition to the removal of the DDI, the IRS instituted other changes during the tax season to curb fraud in the tax system. As a result of these IRS changes, more stringent criteria were adopted in the loan approval process and the cost to the consumer increased. These changes resulted in a 21% decline in the number of returns filed electronically and a 50% decline in the number of RALs processed by company-owned and franchised offices. Due to these changes, the Company's Tax Services segment experienced a decline in revenues for the first time in its forty-year history, and only the second decline in pretax earnings.

On April 4, 1995, the Company acquired SPRY, Inc. in exchange for H&R Block, Inc. Convertible Preferred Stock valued at \$54.2 million, and cash, including acquisition expenses, of \$41.8 million. In addition, outstanding options for SPRY, Inc. common stock were converted into options for Convertible Preferred Stock valued at \$5.6 million. In connection with the acquisition, the Company recorded a charge to earnings of \$83.5 million, or \$.79 per share, for purchased research and development.

Fiscal 1994 results were affected by the following significant transactions: the sale of the Company's wholly-owned subsidiary, Interim Services Inc., through an initial public offering and the acquisition of MECA Software, Inc. The Company's net earnings for the year included a net gain of \$27.3 million, or \$.26 per share, from the sale of Interim and a charge to earnings of \$25.1 million, or \$.24 per share, for purchased research and development related to the acquisition of MECA Software, Inc. Interim's results are reflected as discontinued operations, and all amounts for prior periods have been similarly reported. Interim's operations in fiscal 1994 contributed \$.09 per share up to the date of sale compared to \$.09 per share for the entire previous year.

#### CONSOLIDATED RESULTS

Consolidated revenues increased 9.8% from \$1.239 billion last year to a record \$1.360 billion. Consolidated revenues were \$1.074 billion in 1993. Consolidated net earnings decreased 46.5% from \$200.5 million in 1994 to \$107.3 million. Consolidated net earnings in 1993 were \$180.7 million. Net earnings per share decreased to \$1.01 from \$1.88 in 1994 and \$1.68 in 1993. However, exclusive of the charges for purchased research and development and discontinued operations, net earnings per share increased to \$1.80 from \$1.77 in 1994 and \$1.59 in 1993.

Additional information on each of the Company's operating segments follows:

#### COMPUTER SERVICES

Revenues increased 35.6% from \$429.9 million last year to \$582.8 million this year. Revenues in 1993 were \$315.4 million. The increase each year over the preceding year was due to growth in Information and Network Services' revenues. The Information Services' worldwide customer base of the company and its affiliates grew to approximately 3.2 million in 1995, compared with 1.9 million in 1994 and 1.2 million in 1993. Domestically, the customer base grew 55% to 2.1 million. Network Services' customers increased to 750 compared with 586 in 1994 and 484 in 1993.

Pretax earnings increased 46.7% from \$102.3 million in 1994 to \$150.1 million. Pretax earnings in 1993 were \$74.0 million. The pretax margin was 25.8% this year, compared to 23.8% in 1994 and 23.5% in 1993. The record results were attributable primarily to the continued strong performances of the Information and Network Services divisions. The increase in margins each year over the preceding year resulted mainly from the exceptional increases in revenues that outpaced expenses, a significant portion of which are not directly associated with revenues.

#### TAX SERVICES

Revenues decreased 3.4% from \$755.5 million in 1994 to \$729.7 million. The decrease in revenues in 1995 was due primarily to a 31.1% decline in electronic filing fees and a 49.5% decline in RAL license fees received from participating financial institutions. The decreases resulted from IRS actions discussed earlier. Tax return preparation fees increased 5.7% to a record \$517.0 million in 1995. Revenues in 1994 increased 3.0% to \$755.5 million from \$733.4 million in 1993. The increase in 1994 resulted primarily from greater tax preparation fees, electronic filing fees, franchise royalties and RAL bank fees.

Pretax earnings decreased 25.7% from \$198.7 million in 1994 to \$147.7 million. Pretax earnings in 1993 were \$191.3 million. The decrease this year resulted from the decline in electronic filing revenues and greater expenses associated with changes in the electronic filing program. Pretax earnings as a percent of revenues was 20.2% this year, compared to 26.3% in 1994 and 26.1% in 1993.

#### FINANCIAL SERVICES

Revenues decreased 23.1% from \$51.0 million last year to \$39.2 million. Revenues in 1993 were \$25.4 million. This segment incurred a pretax loss

of \$5.8 million this year compared with pretax earnings of \$8.7 million in 1994 and \$10.1 million in 1993. The decline in revenues and pretax earnings compared to last year resulted primarily from the decision not to make investments in RALs due to the IRS changes that increased the RAL credit risk.

#### INVESTMENT INCOME

Investment income increased 55.4% from \$15.3 million in 1994 to \$23.7 million. Investment income in 1993 was \$15.0 million. Investment income in 1995 included gains of \$4.9 million from the sale of securities during the fourth quarter. Exclusive of such gains, investment income increased 23.4% over last year and resulted primarily from more funds being available for investment this year, including the proceeds from the sale of Interim Services Inc. received in the fourth quarter of fiscal 1994.

#### CORPORATE & ADMINISTRATIVE EXPENSES

The corporate and administrative pretax loss decreased 27.0% from \$16.7 million in 1994 to \$12.2 million. The pretax loss in 1993 was \$14.6 million. The decrease in 1995 compared to 1994 resulted from the allocation of certain employee benefit expenses to operating segments and reduced discretionary corporate expenses related to community welfare. The increase in 1994 compared with 1993 resulted from higher legal and employee benefits expenses and lower miscellaneous income.

#### INCOME TAX EXPENSE

The effective tax rate increased to 51.2%, compared to 42.1% in 1994 and 38.0% in 1993. The increase in 1995 compared to 1994 resulted from a charge for purchased research and development that is not deductible for income tax purposes. The increase in 1994 compared to 1993 resulted from a one percent increase in the federal income tax rate and a charge for purchased research and development.

#### EFFECTS OF INFLATION

The effects of inflation on the Company's operations were not significant during 1995, 1994 or 1993.

#### MANAGEMENT'S DISCUSSION AND ANALYSIS OF LIQUIDITY AND CAPITAL RESOURCES

The Company's financial position remains strong, with cash and marketable securities of \$445.0 million at April 30, 1995, compared to \$620.1 million and \$439.5 million at the end of 1994 and 1993, respectively. The significant increase in cash and marketable securities in 1994 as compared to 1993 was due to the net proceeds from the sale of Interim Services Inc. of \$188.5 million, and from the repayment of the term loan from Interim of \$30.0 million. This repayment was partially offset by a reduction in borrowing compared to 1993. Stockholders' equity at April 30, 1995, 1994 and 1993 was \$685.9 million, \$707.9 million and \$650.5 million, respectively.

The Company maintains lines of credit to support short-term borrowing facilities in the United States and Canada. The balance of these lines fluctuates according to the amount of borrowing outstanding during each respective year. Prior to 1995, Block Financial Corporation (BFC) used borrowings to purchase an interest in a trust to which certain Refund Anticipation Loans (RALs) made by Mellon Bank (DE) National Association were sold. BFC purchased an interest of just under 50% in those RALs subject to its agreement with Mellon. BFC financed these purchases through short-term borrowing in the third and fourth quarters of fiscal years 1994 and 1993. Canadian borrowings are used each year to purchase refunds due Tax Services' clients. Clients assign to the company the full tax refund to be issued by Revenue Canada. Maturities of short-term borrowing range from 30 to 90 days. Net accounts receivable at April 30, 1995 and 1994 include amounts due from Revenue Canada of \$16.4 million and \$28.5 million, respectively. Collections occur substantially in the last month of the fiscal year and the first quarter of the subsequent fiscal year.

The Company also maintains a year-round \$100 million line of credit to primarily support the funding of credit card receivables by BFC. At April 30, 1995, net credit card receivables amounted to \$122.5 million, and commercial paper outstanding amounted to \$49.4 million.

The Company has historically generated sufficient funds to provide for the off-season working capital needs of the tax services segment, which experiences losses for the period May through December, capital investments, the operating and expansion needs of its subsidiaries, cash for acquisitions and the maintenance of a strong dividend policy. Management believes that the Company will continue to generate sufficient funds internally to finance its investment program and normal working capital requirements. However, the Company will continue to use short-term financing in the United States to finance temporary liquidity needs and various financial activities conducted by BFC, and in Canada to finance the Canadian refund discount program.

The Company announced in December 1993 its intention to repurchase from time to time up to ten million of its shares on the open market. During

1995, the Company repurchased 2.9 million shares at an aggregate cost of \$114.9 million. Other than the possible repurchase of additional shares of the Company's common stock, there are no material commitments for capital investments as of April 30, 1995.

<TABLE>  
CONSOLIDATED STATEMENTS OF EARNINGS  
Amounts in thousands, except per share amounts  
<CAPTION>

	Year Ended April 30		
	1995	1994	1993
<S>	<C>	<C>	<C>
REVENUES:			
Service revenues	\$1,233,815	\$1,118,566	\$ 956,534
Royalties	92,436	96,766	92,529
Investment income	23,703	15,256	15,038
Other income	10,364	8,089	10,162
	1,360,318	1,238,677	1,074,263
EXPENSES:			
Employee compensation and benefits	442,504	404,367	369,476
Occupancy and equipment	295,528	242,391	203,350
Marketing and advertising	84,905	60,783	47,118
Supplies, freight and postage	71,542	60,182	53,470
Other	162,335	162,698	124,955
Purchased research and development	83,508	25,072	-
	1,140,322	955,493	798,369
Earnings from continuing operations before taxes on earnings	219,996	283,184	275,894
Taxes on earnings	112,737	119,189	104,877
NET EARNINGS FROM CONTINUING OPERATIONS	107,259	163,995	171,017
Net earnings from discontinued operations (less applicable taxes of \$8,706 and \$9,688)	-	9,268	9,688
Net gain on sale of discontinued operations (less applicable taxes of \$16,711)	-	27,265	-
NET EARNINGS	\$ 107,259	\$ 200,528	\$ 180,705
EARNINGS PER SHARE FROM CONTINUING OPERATIONS	\$1.01	\$1.54	\$1.59
EARNINGS PER SHARE	\$1.01	\$1.88	\$1.68

<FN>  
See notes to consolidated financial statements.  
</FN>  
</TABLE>

<TABLE>  
CONSOLIDATED BALANCE SHEETS  
Amounts in thousands, except share data  
<CAPTION>

	April 30, 1995	April 30, 1994
<S>	<C>	<C>
ASSETS		
CURRENT ASSETS:		
Cash (including certificates of deposit of \$25,781 and \$23,519)	\$ 90,248	\$ 41,343
Marketable securities	263,239	473,043
Receivables, less allowance for doubtful accounts of \$7,274 and \$12,744	260,198	165,858
Prepaid expenses	21,823	19,551
Total current assets	635,508	699,795
INVESTMENTS AND OTHER ASSETS:		
Investments in marketable securities	91,494	105,705
Excess of cost over fair value of net tangible assets acquired, less accumulated amortization of \$46,770 and \$43,429	78,205	67,679
Other	45,383	36,301
	215,082	209,685
PROPERTY AND EQUIPMENT, at cost less accumulated depreciation and amortization of \$227,056 and \$192,481	227,448	165,224



	\$1,078,038	\$1,074,704
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Notes payable	\$ 49,421	\$ -
Accounts payable, accrued expenses and deposits	145,909	160,592
Accrued salaries, wages and payroll taxes	71,281	55,195
Accrued taxes on earnings	92,100	120,425
	-----	-----
Total current liabilities	358,711	336,212
OTHER NONCURRENT LIABILITIES	33,462	30,617
STOCKHOLDERS' EQUITY:		
Common stock, no par, stated value \$.01 per share: authorized 200,000,000 shares	1,089	1,089
Convertible preferred stock, no par, stated value \$.01 per share: authorized 500,000 shares	4	-
Additional paid-in capital	140,578	90,552
Retained earnings	700,423	719,724
	-----	-----
	842,094	811,365
Less cost of common stock in treasury	156,229	103,490
	-----	-----
	685,865	707,875
	-----	-----
	\$1,078,038	\$1,074,704
	=====	=====

<FN>

See notes to consolidated financial statements.

</FN>

</TABLE>

<TABLE>

CONSOLIDATED STATEMENTS OF CASH FLOWS

Amounts in thousands

<CAPTION>

	Year Ended April 30		
	1995	1994	1993
	-----	-----	-----
	<C>	<C>	<C>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net earnings	\$ 107,259	\$ 200,528	\$ 180,705
Adjustments to reconcile net earnings to net cash provided:			
Depreciation and amortization	67,684	57,117	54,698
Provision for deferred taxes on earnings	3,440	(2,735)	(2,915)
Gain on sale of subsidiaries	(2,796)	(27,265)	-
Purchased research and development	83,508	25,072	-
Net (gain) loss on sales of marketable securities	(6,664)	(307)	123
Other noncurrent liabilities	2,845	5,197	4,276
Changes in assets and liabilities net of effects of purchase and disposition of subsidiaries:			
Receivables	(87,995)	2,284	43,171
Prepaid expenses	(1,735)	(412)	(4,619)
Net assets of discontinued operations	-	(17,370)	-
Accounts payable, accrued expenses and deposits	(24,994)	31,000	56,593
Accrued salaries, wages and payroll taxes	15,722	14,659	(6,672)
Accrued taxes on earnings	(31,911)	(300)	19,278
	-----	-----	-----
Net cash provided by operating activities	124,363	287,468	344,638
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Purchases of marketable securities	(1,904,653)	(1,522,609)	(1,198,102)
Maturities of marketable securities	1,837,584	891,299	626,315
Sales of marketable securities	299,702	448,978	553,465
Purchases of property and equipment, net	(123,337)	(83,744)	(71,921)
Excess of cost over fair value of net tangible assets acquired, net of cash acquired	(47,773)	(46,570)	(10,981)
Proceeds from sale of subsidiaries	5,195	188,500	-
Proceeds from term loan to former subsidiary	-	30,000	-
Other, net	(5,856)	(24,198)	(13,241)
	-----	-----	-----
Net cash provided by (used in) investing activities	60,862	(118,344)	(114,465)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Repayments of notes payable	(1,856,873)	(2,435,254)	(1,717,226)
Proceeds from issuance of notes payable	1,906,294	2,398,087	1,653,061
Dividends paid	(128,838)	(115,451)	(103,462)
Payments to acquire treasury shares	(114,900)	(68,899)	(94,763)
Proceeds from stock options exercised	57,997	50,319	62,158
	-----	-----	-----
Net cash used in financing activities	(136,320)	(171,198)	(200,232)
	-----	-----	-----
Net increase (decrease) in cash	48,905	(2,074)	29,941

Cash at beginning of the year	41,343	43,417	13,476
Cash at end of the year	\$ 90,248	\$ 41,343	\$ 43,417

<CAPTION>

	Year Ended April 30		
	1995	1994	1993
<S>	<C>	<C>	<C>
(continued)			
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Income taxes paid	\$ 141,062	\$ 131,124	\$ 98,202
Interest paid	4,064	4,169	5,933

<FN>

See notes to consolidated financial statements.

</FN>

</TABLE>

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Dollars in thousands, except share data

#### SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**PRINCIPLES OF CONSOLIDATION:** The consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly-owned. All material intercompany transactions and balances have been eliminated.

**RECLASSIFICATIONS:** Prior year amounts have been reclassified to conform to the 1995 presentation.

**MARKETABLE SECURITIES:** On May 1, 1994, the Company adopted Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities." This Statement addresses the reporting for debt and equity securities by requiring such investments to be classified in held-to-maturity, available-for-sale or trading categories. All marketable debt and equity securities were classified as available-for-sale securities on the date of adoption, and are carried at market value, based on quoted prices, with unrealized gains and losses included in stockholders' equity. The adoption of the Statement resulted in an increase in stockholders' equity of \$5,526, net of taxes. In accordance with the Statement, prior years' financial statements have not been restated.

For marketable securities held at April 30, 1994, municipal bonds and notes are stated at amortized cost, marketable equity securities are stated at the lower of aggregate cost or market value and other investments are stated at cost.

The cost of marketable securities sold is determined on the specific identification method and realized gains and losses are reflected in earnings.

**FOREIGN CURRENCY TRANSLATION:** Assets and liabilities of the Company's foreign branches and subsidiaries are translated into U.S. dollars at exchange rates prevailing at the end of the year. Revenue and expense transactions are translated at the average of exchange rates in effect during the period. Translation gains and losses are recorded directly to stockholders' equity.

**EXCESS OF COST OVER FAIR VALUE OF NET TANGIBLE ASSETS ACQUIRED:** The excess of cost of purchased subsidiaries, operating offices and franchises over the fair value of net tangible assets acquired is being amortized over periods of up to 40 years on a straight-line basis.

**DEPRECIATION AND AMORTIZATION:** Buildings and equipment are depreciated over the estimated useful lives of the assets using the straight-line method. Leasehold improvements are amortized over the period of the respective lease using the straight-line method.

**REVENUE RECOGNITION:** Service revenues are recorded in the period in which the service is performed. The Company records franchise royalties, based upon the contractual percentages of franchise revenues, in the period in which the franchise provides the service.

**NOTES PAYABLE:** The Company uses short-term borrowings to finance temporary liquidity needs and various financial activities conducted by its subsidiaries. The weighted average interest rate of notes payable at April 30, 1995 was 6.1%.

**TAXES ON EARNINGS:** The Company and its subsidiaries file a consolidated federal income tax return on a calendar year basis. Therefore, the current liability for taxes on earnings recorded in the balance sheet at each year-end consists principally of taxes on earnings for the period January 1 to April 30 of the respective year. Deferred taxes, which are not material, are provided for temporary differences between financial and tax reporting, which consist principally of amortization of accounting method changes (for tax purposes), differences between accrual and cash basis accounting, deferred compensation and depreciation.

Prior to May 1, 1993, taxes on earnings were determined under Accounting Principles Board Opinion Number 11, whereby the income tax provision was calculated using the deferred method. Effective May 1, 1993, the Company adopted the provisions of Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes," which provides for the recognition of deferred tax assets and liabilities for the tax consequences of temporary differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities. The cumulative effect of the change in method as of May 1, 1993 was not material.

**EARNINGS PER SHARE:** Earnings per share are computed based on the weighted average number of common and common equivalent shares outstanding during the respective years (105,871,000 in 1995, 106,769,000 in 1994 and 107,644,000 in 1993). Earnings per share assuming full dilution have not been shown as there would be no material dilution.

**CONSOLIDATED STATEMENTS OF CASH FLOWS:** For purposes of the consolidated statements of cash flows, the Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash.

**DISCLOSURE REGARDING FINANCIAL INSTRUMENTS:** The carrying values reported in the balance sheet for certificates of deposit, receivables, notes payable, accrued liabilities and accrued taxes on earnings approximate fair market value due to the relatively short-term nature of the respective instruments.

**MARKETABLE SECURITIES**

The amortized cost and market value of marketable securities at April 30, 1995 and 1994 are summarized below:

<TABLE>  
<CAPTION>

	1995				1994			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
<b>CURRENT:</b>								
Municipal bonds and notes	\$ 88,894	\$ 310	\$ 94	\$ 89,110	\$238,092	\$ 266	\$ 100	\$238,258
U.S. Government obligations	52,091	48	-	52,139	-	-	-	-
Other equity investments	49,100	-	-	49,100	118,263	5	-	118,268
Other debt investments	72,830	61	1	72,890	116,688	4	-	116,692
	262,915	419	95	263,239	473,043	275	100	473,218
<b>NONCURRENT:</b>								
Municipal bonds	82,702	1,676	1,325	83,053	92,154	3,176	1,316	94,014
Preferred stock	2,737	245	131	3,018	1,511	415	131	1,795
Common stock	1,511	396	115	1,625	7,479	7,287	-	14,766
Other equity investments	3,488	-	692	2,796	4,561	-	649	3,912
Other debt investments	999	3	-	1,002	-	-	-	-
	91,437	2,320	2,263	91,494	105,705	10,878	2,096	114,487
	\$354,352	\$2,739	\$2,358	\$354,733	\$578,748	\$11,153	\$2,196	\$587,705

</TABLE>  
All marketable securities at April 30, 1995 are classified as available-for-sale. Proceeds from the sales of available-for-sale securities were \$299,702, \$448,978 and \$553,465 during 1995, 1994 and 1993, respectively. Gross realized gains on those sales during 1995, 1994 and 1993 were \$7,014, \$393 and \$24, respectively; gross realized losses were \$350, \$86 and \$147, respectively.

Contractual maturities of available-for-sale debt securities at April 30, 1995 are presented below. Since expected maturities differ from contractual maturities due to the issuers' rights to prepay certain obligations or the seller's rights to call certain obligations, the first call date, put date or auction date for municipal bonds and notes is considered the contractual maturity date.

	Amortized Cost	Market Value
Within one year	\$213,815	\$214,139

After one year through five years	36,184	37,444
After five years through ten years	47,517	46,611
	-----	-----
	\$297,516	\$298,194
	=====	=====

PROPERTY AND EQUIPMENT

A summary of property and equipment follows:

<TABLE>

<CAPTION>

	April 30	
	-----	-----
	1995	1994
	-----	-----
<S>	<C>	<C>
Land	\$ 7,116	\$ 6,060
Buildings	50,625	30,027
Equipment	367,420	293,573
Leasehold improvements	29,343	28,045
	-----	-----
	454,504	357,705
Less accumulated depreciation and amortization	227,056	192,481
	-----	-----
	\$227,448	\$165,224
	=====	=====

</TABLE>

Depreciation and amortization expense for 1995, 1994 and 1993 amount to \$62,809, \$52,091, \$43,522, respectively.

OTHER NONCURRENT LIABILITIES

The Company has a deferred compensation plan which permits directors and certain management employees to defer portions of their compensation and earn interest on the deferred amounts. The salaries, together with Company matching of deferred salaries, have been accrued, and the only expenses related to this plan are the Company match and the interest on the deferred amounts, which are not material to the financial statements. Included in Other Noncurrent Liabilities is \$27,029 at the end of 1995 and \$22,854 at the end of 1994 to reflect the liability under this plan. The Company purchased whole-life insurance contracts on the related directors and employees to recover distributions made or to be made under the plan and has recorded the cash surrender value of the policies in Other Assets. If all the assumptions regarding mortality, interest rates, policy dividends and other factors are realized, the Company will ultimately realize its full investment plus a factor for the use of its money.

STOCKHOLDERS' EQUITY

Changes in the components of stockholders' equity during the three years ended April 30, 1995 are summarized below:

<TABLE>

<CAPTION>

	Common stock		Convertible preferred stock		Additional paid-in capital	Retained earnings	Treasury stock	
	Shares	Amount	Shares	Amount			Shares	Amount
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Balances at May 1, 1992	108,972,699	\$1,089	-	\$ -	\$120,749	\$574,377	(2,375,002)	\$ (82,502)
Net earnings for the year	-	-	-	-	-	180,705	-	-
Stock options exercised	-	-	-	-	(19,711)	-	2,387,407	81,869
Unrealized loss on translation	-	-	-	-	-	(7,863)	-	-
Acquisition of treasury shares	-	-	-	-	-	-	(2,629,868)	(94,763)
Cash dividends paid - \$.97 per share	-	-	-	-	-	(103,462)	-	-
	-----	-----	-----	-----	-----	-----	-----	-----
Balances at April 30, 1993	108,972,699	1,089	-	-	101,038	643,757	(2,617,463)	(95,396)
Net earnings for the year	-	-	-	-	-	200,528	-	-
Stock options exercised	-	-	-	-	(10,486)	-	1,677,674	60,805
Unrealized loss on translation	-	-	-	-	-	(9,110)	-	-
Acquisition of treasury shares	-	-	-	-	-	-	(1,883,816)	(68,899)
Cash dividends paid - \$1.09 per share	-	-	-	-	-	(115,451)	-	-
	-----	-----	-----	-----	-----	-----	-----	-----
Balances at April 30, 1994	108,972,699	1,089	-	-	90,552	719,724	(2,823,605)	(103,490)
Net earnings for the year	-	-	-	-	-	107,259	-	-
Stock options exercised	-	-	-	-	(4,164)	-	1,624,843	62,161
Unrealized gain on translation	-	-	-	-	-	2,043	-	-
Acquisition of treasury shares	-	-	-	-	-	-	(2,910,900)	(114,900)
Stock issued for acquisition	-	-	401,768	4	54,190	-	-	-
Cumulative effect of change in accounting for marketable securities, net of taxes	-	-	-	-	-	5,526	-	-
Change in net unrealized gain on marketable securities	-	-	-	-	-	(5,291)	-	-
Cash dividends paid - \$1.21 3/4 per share	-	-	-	-	-	(128,838)	-	-

Balances at April 30, 1995	108,972,699	\$1,089	401,768	\$ 4	\$140,578	\$700,423	(4,109,662)	\$(156,229)
----------------------------	-------------	---------	---------	------	-----------	-----------	-------------	-------------

</TABLE>

The Company is authorized to issue 6,000,000 shares of Preferred Stock, without par value. At April 30, 1995, the Company had 5,598,232 shares of authorized but unissued Preferred Stock. Of the unissued shares, 600,000 shares have been designated as Participating Preferred Stock in connection with the Company's shareholder rights plan.

On March 8, 1995, the Board of Directors authorized the issuance of a series of 500,000 shares of nonvoting Preferred Stock designated as Delayed Convertible Preferred Stock, without par value. On April 4, 1995, 401,768 shares of Delayed Convertible Preferred Stock were issued to certain shareholders of SPRY, Inc. in connection with the Company's acquisition of such corporation. Each share of Delayed Convertible Preferred Stock is convertible on or after April 5, 1998 into four shares of Common Stock of the Company, subject to adjustment upon certain events. The holders of the Delayed Convertible Preferred Stock are not entitled to receive dividends paid in cash, property or securities and, in the event of any dissolution, liquidation or winding-up of the Company, will share ratably with the holders of

Common Stock then outstanding in the assets of the Company after any distribution or payments are made to the holders of Participating Preferred Stock or the holders of any other class or series of stock of the Company with preference over the Common Stock.

#### STOCK OPTION PLANS

The Company has three stock option plans: the 1993 Long-Term Executive Compensation Plan, the 1989 Stock Option Plan for Outside Directors and a plan for eligible seasonal employees. The 1993 plan was approved by the shareholders in September 1993 to replace the 1984 Long-Term Executive Compensation Plan, which terminated at that time except with respect to outstanding awards thereunder. Under the 1993 and 1989 plans, options may be granted to selected employees and outside directors to purchase the Company's Common Stock for periods not exceeding ten years at a price that is not less than 100 percent of fair market value on the date of grant. A majority of the options are exercisable each year starting one year after the date of grant, or on a cumulative basis at the annual rate of 33 1/3 percent of the total number of option shares. Other options are exercisable commencing three years after the date of grant on a cumulative basis in annual increments of 60%, 20% and 20% of the total number of option shares.

The plan for eligible seasonal employees, as amended, provided for the grant of options on June 30, 1995, 1994 and 1993 at the market price on the date of the grant. The options are exercisable during September in each of the two years following the calendar year of grant.

Changes during the years ended April 30, 1995, 1994 and 1993 under these plans were as follows:

<TABLE>

<CAPTION>

	1995	1994	1993
<S>	<C>	<C>	<C>
Options outstanding, beginning of year	3,538,341	3,901,373	4,835,777
Options granted	3,912,763	2,410,317	2,327,340
Options exercised	(1,624,203)	(1,677,674)	(2,387,407)
Options which expired	(961,087)	(1,095,675)	(874,337)
Options outstanding, end of year	4,865,814	3,538,341	3,901,373
Shares exercisable, end of year	2,727,540	2,807,255	2,958,418
Shares reserved for future grants, end of year	15,465,557	18,417,233	12,736,987
Options prices per share:			
Exercised during the year	\$5.515-39.25	\$5.515-35.75	\$5.515-28.75
Outstanding, end of year	\$6.9525-44.00	\$5.515-44.00	\$5.515-35.375

</TABLE>

In connection with the acquisition of SPRY, Inc., outstanding options to purchase SPRY, Inc. common stock under an employee stock option plan were converted on April 4, 1995 into options to purchase 51,828 shares of the Company's Convertible Preferred Stock. All options to purchase Convertible Preferred Stock, with exercise prices ranging from \$9.54 to \$19.08, were outstanding at April 30, 1995.

#### SHAREHOLDER RIGHTS PLAN

On July 14, 1988, the Company's Board of Directors adopted a shareholder rights plan to deter coercive or unfair takeover tactics and to prevent a potential acquiror from gaining control of the Company without offering a fair price to all of the Company's stockholders. The plan was amended by the Board of Directors on May 9, 1990, September 11, 1991, and May 10,

1995. Under the plan, a dividend of one right (a "Right") per share was declared and paid on each share of the Company's Common Stock outstanding on July 25, 1988. As to shares issued after such date, rights will automatically attach to them after their issuance.

Under the plan, as amended, registered holders of each Right may purchase from the Company one two-hundredths of a share of a new class of the Company's Participating Preferred Stock, without par value, at a price of \$60.00, subject to adjustment, when the Rights become exercisable. They become exercisable when a person or group of persons acquires beneficial ownership of 10% or more of the outstanding shares of the Company's Common Stock without the prior written approval of the Company's Board of Directors (an "Unapproved Stock Acquisition"), and after ten business days following the commencement of a tender offer that would result in an Unapproved Stock Acquisition. If a person or group of persons makes an Unapproved Stock Acquisition, the registered holder of each Right then also has the right to purchase for the exercise price of the Right a number of shares of the Company's Common Stock having a market value equal to twice the exercise price of the Right. Following an Unapproved Stock Acquisition, if the Company is involved in a merger, or 50% or more of the Company's assets or earning power are sold, the registered holder of each Right has the right to purchase for the exercise price of the Right a number of shares of the common stock of the surviving or purchasing company having a market value equal to twice the exercise price of the Right.

After an Unapproved Stock Acquisition, but before any person or group of persons acquires 50% or more of the outstanding shares of the Company's Common Stock, the Board of Directors may exchange all or part of the then outstanding and exercisable Rights for Common Stock at an exchange ratio of one share of Common Stock per Right. Upon any such exchange, the right of any holder to exercise a Right terminates.

The Company may redeem the Rights at a price of \$.005 per Right at any time prior to an Unapproved Stock Acquisition (and after such time in certain circumstances). The Rights expire on July 25, 1998, unless extended by the Board of Directors. Until a Right is exercised, the holder thereof, as such, has no rights as a stockholder of the Company, including the right to vote or to receive dividends. The issuance of the Rights alone has no dilutive effect and does not affect reported earnings per share.

#### OTHER EXPENSES

Included in other expenses are the following:

<TABLE>

<CAPTION>

	Year Ended April 30		
	1995	1994	1993
<S>	<C>	<C>	<C>
Royalties	\$59,027	\$39,827	\$25,326
Bad debts	13,619	24,977	16,312
Travel and entertainment	19,470	15,039	10,420
Taxes and licenses	8,915	13,285	11,033
Amortization of goodwill	4,875	5,026	3,115
Interest	4,060	3,798	6,580
Legal and professional	15,271	14,445	9,486

#### TAXES ON EARNINGS

The components of earnings from continuing operations before taxes on earnings upon which federal and foreign income taxes have been provided are as follows:

	Year Ended April 30		
	1995	1994	1993
United States	\$213,122	\$276,329	\$261,981
Foreign	6,874	6,855	13,913
	\$219,996	\$283,184	\$275,894

Deferred income tax provisions (benefits) reflect the impact of temporary differences between amounts of assets and liabilities for financial reporting purposes and such amounts as measured by tax laws. The current and deferred components of the provision for income taxes from continuing operations is comprised of the following:

<TABLE>

<CAPTION>

Year Ended April 30

	1995	1994	1993
	-----	-----	-----
<S>	<C>	<C>	<C>
Currently payable:			
Federal	\$ 92,620	\$ 96,807	\$ 80,915
State	13,424	22,091	20,736
Foreign	3,253	3,026	6,141
	-----	-----	-----
	109,297	121,924	107,792
	-----	-----	-----
Deferred:			
Capitalized research and development	(27)	172	991
Deferred compensation	(469)	(2,319)	(1,892)
Depreciation	3,828	(335)	(1,565)
Intercompany profit upon sale of fixed assets	756	(257)	(539)
Other	(648)	4	90
	-----	-----	-----
	3,440	(2,735)	(2,915)
	-----	-----	-----
	\$112,737	\$119,189	\$104,877
	=====	=====	=====

</TABLE>

Provision is not made for possible income taxes payable upon distribution of unremitted earnings of foreign subsidiaries. Such unremitted earnings aggregated \$59,279 at December 31, 1994. Management believes that the cost to repatriate these earnings would not be material.

The following table reconciles the U.S. federal income tax rate to the Company's effective tax rate:

<TABLE>

<CAPTION>

	Year Ended April 30		
	-----	-----	-----
	1995	1994	1993
	-----	-----	-----
<S>	<C>	<C>	<C>
Statutory rate	35.0%	35.0%	34.0%
Increases (reductions) in income taxes resulting from:			
State income taxes, net of federal income tax benefit	4.0%	5.1%	5.0%
Foreign taxes, net of federal income tax benefit	.3%	.2%	.5%
Purchased research and development	13.3%	3.1%	-
Nontaxable federal income	(1.8%)	(.9%)	(1.1%)
Other	.4%	(.4%)	(.4%)
	-----	-----	-----
Effective rate	51.2%	42.1%	38.0%
	=====	=====	=====

</TABLE>

#### ACQUISITIONS

On April 4, 1995, the Company acquired SPRY, Inc. for \$41,785 in cash and issued Convertible Preferred Stock valued at \$54,194. In addition, outstanding options for SPRY, Inc. common stock were converted into options for Convertible Preferred Stock valued at \$5,641. The transaction was accounted for as a purchase and, accordingly, the consolidated statements of earnings includes SPRY's operations from the date of acquisition. In connection with the purchase, the Company acquired certain intangible assets, including software technology, tradenames and an assembled workforce totalling \$11,656. These intangibles will be amortized on a straight-line basis over five years. The Company also acquired research and development projects related to SPRY's next product generation. These projects represent SPRY's research and development efforts prior to the merger, which had not yet reached the stage of technological feasibility and had no alternative future use; thus, the ultimate revenue generating capability of these projects was uncertain. The purchased research and development was valued at \$83,508 using a discounted, risk-adjusted future income approach. The consolidated statements of earnings includes a charge for the purchased research and development which is not deductible for income tax purposes. The fair value of assets acquired, including intangibles, was \$106,371; liabilities assumed were \$4,751. Liabilities assumed and the Convertible Preferred Stock and stock options issued were non-cash items excluded from the consolidated statements of cash flows.

On November 24, 1993, the Company acquired MECA Software, Inc. for \$45,384 in cash. The transaction was accounted for as a purchase and, accordingly, the consolidated statements of earnings includes MECA's results since the date of acquisition. The purchase price has been allocated to assets acquired and liabilities assumed based on their fair value at the date of acquisition. The excess of the purchase price over the fair value of the net tangible assets acquired was \$55,978, of which \$25,072 was allocated to purchased research and development, \$4,900 was allocated to various other intangibles including technology, software and trademarks, and the remainder was allocated to goodwill. Goodwill and other intangibles will be amortized on a straight-line basis over their estimated useful lives of

3 to 15 years. The consolidated statements of earnings includes a charge for the purchased research and development which is not deductible for income tax purposes. The fair value of assets acquired, including intangibles, was \$62,004; liabilities assumed were \$16,620. Liabilities assumed in connection with the acquisition were non-cash items excluded from the consolidated statements of cash flows.

During fiscal 1995, 1994 and 1993, the Company made other acquisitions which were accounted for as purchases. Their operations, which are not material, are included in the consolidated statements of earnings. Pro forma results assuming MECA and SPRY had been acquired as of the beginning of the periods presented would not be materially different from reported results.

#### SALE OF SUBSIDIARIES

On June 30, 1994, the Company sold the stock of its wholly-owned subsidiary, Collier-Jackson, Inc., for \$5,195 in cash. The operating results of Collier-Jackson, which were included in the computer services segment, are reflected in the consolidated statements of earnings through the date of disposition, and the gain on the sale of \$2,680 is included in other income.

On January 27, 1994, the Company completed the sale of its interest in its wholly-owned subsidiary, Interim Services Inc., through an initial public offering of 10,000,000 shares at \$20 per share. The net proceeds from the sale and the receipt from the retirement of a term loan to Interim amounted to \$218,500. The Company recorded a net gain on the sale of the stock of \$27,265. Interim's results are reflected as discontinued operations, and all amounts for prior periods have been similarly reported. The net sales of Interim for fiscal years 1994 and 1993 were \$399,573 and \$451,067, respectively.

Subsequent to April 30, 1995, the Company sold its wholly-owned subsidiary, MECA Software, Inc., for approximately \$35,000. The proceeds from the sale and the related gain are not material to the Company's consolidated financial position or results from operations. The operations of MECA Software, Inc. are included in the financial services segment.

#### COMMITMENTS

Substantially all of the Company's operations are conducted in leased premises. Most of the operating leases are for a one-year period with renewal options of one to three years and provide for fixed monthly rentals. Lease commitments at April 30, 1995 for fiscal 1996, 1997, 1998, 1999 and 2000 aggregated \$61,540, \$45,866, \$30,058, \$15,532 and \$8,238, respectively, with no significant commitments extending beyond that period of time. The Company's rent expense for the years 1995, 1994 and 1993 aggregated \$70,377, \$63,655 and \$59,016, respectively.

The Company maintains a year-round \$100,000 line of credit to support various financial activities conducted by Block Financial Corporation.

#### QUARTERLY FINANCIAL DATA (UNAUDITED)

<TABLE>

<CAPTION>

	Fiscal 1995 Quarter Ended				Fiscal 1994 Quarter Ended			
	April 30, 1995	Jan. 31, 1995	Oct. 31, 1994	July 31, 1994	April 30, 1994	Jan. 31, 1994	Oct. 31, 1993	July 31, 1993
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Revenues	\$774,047	\$268,014	\$172,857	\$145,400	\$774,716	\$229,441	\$131,206	\$103,314
Continuing operations:								
Earnings (loss) before provision for income taxes (benefits)	213,720	13,102	(2,029)	(4,797)	316,881	(11,455)	(7,867)	(14,375)
Provision for income taxes (benefits)	110,333	5,018	(777)	(1,837)	122,536	6,479	(3,694)	(6,132)
Net earnings (loss)	103,387	8,084	(1,252)	(2,960)	194,345	(17,934)	(4,173)	(8,243)
Discontinued operations:								
Net earnings	-	-	-	-	-	3,225	3,241	2,802
Net gain on sale	-	-	-	-	-	27,265	-	-
Net earnings (loss)	103,387	8,084	(1,252)	(2,960)	194,345	12,556	(932)	(5,441)
Earnings (loss) per share from								
continuing operations	.97	.08	(.01)	(.03)	1.82	(.17)	(.04)	(.08)
Earnings (loss) per share	.97	.08	(.01)	(.03)	1.82	.12	(.01)	(.05)

</TABLE>

The Company recorded a charge to earnings of \$83,508 (\$.79 per share) for purchased research and development in the fourth quarter in 1995.

#### SEGMENT INFORMATION

The principal business activity of the Company is providing services to the general public and business community. It operates in the following industry segments:

COMPUTER SERVICES: This segment is engaged in providing computer information and networking services to corporations and individual



computer owners via a proprietary data network and host servers located in Columbus and Dublin, Ohio. It is the world's largest provider of on-line services and operates the only major on-line service with worldwide membership and network reach.

**TAX SERVICES:** This segment is engaged in providing tax return preparation, filing and related services to the general public on a fee basis. Revenues are seasonal in nature and represent fees of company-owned offices and royalties from franchised offices.

**FINANCIAL SERVICES:** This segment provides and invests primarily in financial services delivery technology and financial services delivered by that technology. It sponsors credit cards under two co-branding agreements to existing Tax Services and CompuServe customers. This segment also includes the operations of MECA Software, Inc. and Legal Knowledge Systems, Inc. which provide personal finance and personal tax software to the general public.

**IDENTIFIABLE ASSETS:** Identifiable assets are those assets, including the excess of cost over fair value of net tangible assets acquired, associated with each segment of the Company's operations. The remaining assets are classified as corporate assets and consist primarily of cash, marketable securities and corporate equipment.

Identifiable assets at April 30, 1993 do not include the assets of discontinued operations of \$188,008 which are included in the consolidated balance sheet for the corresponding year.

Information concerning the Company's operations by industry segment for the years ended April 30, 1995, 1994 and 1993 is as follows:

<TABLE>

<CAPTION>

	1995	1994	1993
	-----	-----	-----
<S>	<C>	<C>	<C>
<b>REVENUES:</b>			
Computer services	\$ 582,793	\$ 429,885	\$ 315,399
Tax services	729,718	755,526	733,449
Financial services	39,246	51,009	25,422
Intersegment sales	(15,194)	(13,185)	(15,804)
	-----	-----	-----
Total operating revenues	1,336,563	1,223,235	1,058,466
Investment income	23,703	15,256	15,038
Corporate	52	186	759
	-----	-----	-----
<b>TOTAL REVENUES</b>	<b>\$1,360,318</b>	<b>\$1,238,677</b>	<b>\$1,074,263</b>
	=====	=====	=====

<CAPTION>

	1995	1994	1993
	-----	-----	-----
<S>	<C>	<C>	<C>
<b>OPERATING PROFIT:</b>			
Computer services	\$ 150,109	\$ 102,317	\$ 74,039
Tax services	147,740	198,719	191,288
Financial services	(5,826)	8,712	10,122
	-----	-----	-----
Total operating profit	292,023	309,748	275,449
Investment income	23,703	15,256	15,038
Purchased research and development	(83,508)	(25,072)	-
Unallocated corporate and administrative expenses	(12,222)	(16,748)	(14,593)
	-----	-----	-----
<b>EARNINGS FROM CONTINUING OPERATIONS BEFORE TAXES</b>	<b>\$ 219,996</b>	<b>\$ 283,184</b>	<b>\$ 275,894</b>
	=====	=====	=====
<b>DEPRECIATION AND AMORTIZATION:</b>			
Computer services	\$ 42,639	\$ 29,876	\$ 21,437
Tax services	21,991	24,899	24,858
Financial services	2,992	2,277	-
Corporate	62	65	342
	-----	-----	-----
<b>TOTAL DEPRECIATION AND AMORTIZATION</b>	<b>\$ 67,684</b>	<b>\$ 57,117</b>	<b>\$ 46,637</b>
	=====	=====	=====
<b>IDENTIFIABLE ASSETS:</b>			
Computer services	\$ 310,039	\$ 208,469	\$ 148,814
Tax services	103,099	104,585	176,727
Financial services	208,391	134,671	19,682
Corporate	456,509	626,979	472,603
	-----	-----	-----
<b>TOTAL ASSETS</b>	<b>\$1,078,038</b>	<b>\$1,074,704</b>	<b>\$ 817,826</b>
	=====	=====	=====
<b>CAPITAL EXPENDITURES:</b>			
Computer services	\$ 99,690	\$ 73,359	\$ 40,903
Tax services	26,033	11,411	25,994
Financial services	2,135	615	19
Corporate	45	126	289

TOTAL CAPITAL EXPENDITURES	-----	-----	-----
	\$ 127,903	\$ 85,511	\$ 67,205
	=====	=====	=====

</TABLE>

MANAGEMENT'S REPORT

The financial information in this Annual Report, including the consolidated financial statements, has been prepared by the management of H&R Block, Inc. Management believes that the information presented in the Annual Report is consistent with the financial statements, that the financial statements are prepared in accordance with generally accepted accounting principles, and that the financial statements do not contain material misstatements due to fraud or error. Where appropriate, the financial statements reflect management's best estimates and judgments.

Management also is responsible for maintaining a system of internal accounting controls with the objectives of providing reasonable assurance that the Company's assets are safeguarded against material loss from unauthorized use or disposition, and that authorized transactions are properly recorded to permit the preparation of accurate financial data. However, limitations exist in any system of internal controls based on a recognition that the cost of the system should not exceed its benefits. The Company believes its system of accounting controls, of which its internal auditing function is an integral part, accomplishes the stated objectives.

Deloitte & Touche LLP, independent accountants, audit H&R Block's consolidated financial statements and issue an opinion thereon. Their audits are made in accordance with generally accepted auditing standards, and include an objective, independent review of the system of internal controls to the extent necessary to express an opinion on the financial statements.

The Audit Committee of the Board of Directors, composed of outside directors, meets periodically with management, the independent accountants and the internal auditor to review matters relating to the Company's annual financial statements, internal audit activities, internal accounting controls and non-audit services provided by the independent accountants. The independent accountants and the internal auditor have full access to the Audit Committee and meet with it, both with and without management present, to discuss the scope and results of their audits including internal controls, audit and financial matters.

/s/ Thomas M. Bloch  
 Thomas M. Bloch  
 President and Chief Executive Officer

/s/ William P. Anderson  
 William P. Anderson  
 Senior Vice President  
 and Chief Financial Officer

INDEPENDENT AUDITORS' REPORT

Board of Directors and Stockholders  
 H&R Block, Inc.  
 Kansas City, Missouri

We have audited the accompanying consolidated balance sheets of H&R Block, Inc. and subsidiaries as of April 30, 1995 and 1994, and the related consolidated statements of earnings and cash flows for each of the three years in the period ended April 30, 1995. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of H&R Block, Inc. and subsidiaries as of April 30, 1995 and 1994, and the results of their operations and their cash flows for each of the three years in the period ended April 30, 1995, in conformity with generally accepted accounting principles.

As discussed in the notes to the consolidated financial statements, the Company changed its method of accounting for its marketable securities during the year ended April 30, 1995.

/s/ Deloitte & Touche LLP  
Deloitte & Touche LLP

Kansas City, Missouri  
June 20, 1995

SUBSIDIARIES OF H&R BLOCK, INC.

The following is a list of the direct and indirect subsidiaries of H&R Block, Inc., a Missouri corporation. All active subsidiaries do business under their corporate names listed below or close derivatives thereof:

Name	Jurisdiction in which organized
-----	-----
H&R Block Group, Inc.....	Delaware (1)
Block Investment Corporation.....	Delaware (1)
HRB Management, Inc.....	Missouri (2)
H&R Block Tax Services, Inc.....	Missouri (2)
H&R Block Eastern Tax Services, Inc.....	Missouri (3)
H&R Block of Dallas, Inc.....	Texas (3)
HRB Partners, Inc.....	Delaware (4)
H&R Block and Associates, L.P.....	Delaware (5)
HRB Royalty, Inc.....	Delaware (3)
BWA Advertising, Inc.....	Missouri (3)
H&R Block Canada, Inc.....	Canada (3)
H&R Block (Nova Scotia), Incorporated...	Nova Scotia (6)
H&R Block (Guam), Inc.....	Guam (3)
H&R Block Limited.....	New South Wales (7)
H&R Block The Income Tax People Limited.	New Zealand (3)
Companion Insurance, Ltd.....	Bermuda (3)
Block Financial Corporation.....	Delaware (2)
Franchise Partner, Inc.....	Nevada (8)
Block Financial Services Company.....	Utah (8)
Chach Key Corporation.....	Utah (8)
Legal Knowledge Systems, Inc.....	Pennsylvania (8)
Block Financial Executive Services Corporation.....	Colorado (8)
MECA Sub - LFOD, Ltd.....	New Hampshire (8)
BFC Investment, Inc.....	Delaware (2)
CompuServe Incorporated.....	Ohio (2)
CompuPlex Incorporated.....	Ohio (9)
CompuServe Systems Integration Group Southwest, Inc.....	Texas (9)
CompuServe Canada Limited.....	Canada (9)
CompuServe Consulting Services (UK) Limited.....	United Kingdom (9)
CompuServe Information Services (UK) Limited.....	United Kingdom (9)
CompuServe Information Services GMBH....	Germany (9)
CompuServe Information Services AG.....	Switzerland (9)
CompuServe Information Systems SARL.....	France (9)

CompuServe AB.....	Sweden (9)
CompuServe Information Services, B.V....	The Netherlands (9)
CompuServe International Pty, Ltd.....	Australia (9)
Spry, Inc.....	Washington (2)
Spry Soft, Inc.....	Washington (10)
Free Range Media, Inc.....	Washington (11)
Access Technology, Inc.....	Massachusetts (12)
PM Industries, Inc.....	Kansas (12)

-----

Notes to Subsidiaries of H&R Block, Inc.:

- (1) Wholly-owned subsidiary of H&R Block, Inc.
- (2) Wholly-owned subsidiary of H&R Block Group, Inc.
- (3) Wholly-owned subsidiary of H&R Block Tax Services, Inc.
- (4) Wholly-owned subsidiary of H&R Block of Dallas, Inc.
- (5) Limited partnership in which H&R Block Tax Services, Inc. is a 1% general partner and HRB Partners, Inc. is a 99% limited partner.
- (6) Wholly-owned subsidiary of H&R Block Canada, Inc.
- (7) Wholly-owned subsidiary of HRB Royalty, Inc.
- (8) Wholly-owned subsidiary of Block Financial Corporation.
- (9) Wholly-owned subsidiary of CompuServe Incorporated.
- (10) Wholly-owned subsidiary of Spry, Inc.
- (11) 50%-owned subsidiary of Spry, Inc.
- (12) Wholly-owned subsidiary of HRB Management, Inc.

<TABLE> <S> <C>

<ARTICLE> 5

<LEGEND>

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

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<F1>INCLUDES A CHARGE TO EARNINGS OF \$83,508 (\$.79 PER SHARE) FOR PURCHASED

RESEARCH AND DEVELOPMENT IN CONNECTION WITH THE ACQUISITION OF SPRY, INC.  
SUCH AMOUNT IS NOT DEDUCTIBLE FOR INCOME TAX PURPOSES.

</FN>

</TABLE>