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H&R Block Records Lower Losses

The nation's largest tax preparer, H&R Block Inc. reported lower losses by 2% for its first quarter in the fiscal year ended July 31, 2010. In the midst of a flurry of cost cutting measures, the Kansas City, Missouri based tax preparer posted a net loss of \$130.7 million. This is lower than last year's loss year-on-year of \$133.6 million. But although the amount of loss dipped slightly compared to last year, the loss per share nudged upwards. Last year's loss per share was 40 cents whereas the first quarter's loss this year was 41 cents per share. This was due to the reduction of the number of outstanding shares by 4% because of company repurchases.

However, after adjusting for \$21.2 million in charges related to closing 400 offices and eliminating 400 jobs, H&R Block said its loss was 36 cents per share. Besides that, revenue also experienced a reduction of about \$1 million from \$275.5 million last year to \$274.5 million this year. Even H&R Block's Consulting business, RSM McGladrey had a 2 percent decline in revenue to \$174.7 million.

It is customary for H&R to make losses during the first two quarters of the fiscal year because this just after the tax season. However, not every part of the business experienced falling revenue. H&R Block's Tax Services division had an increase in revenue to \$91.6 million, a rise of 4%. Operating expenses also fell by 1% to \$485 million in the first quarter of the fiscal year.

CEO Alan Bennett, who took over only in July after the departure of Russ Smyth, is bullish about H&R's prospects and believes the company can achieve more this year. He said the management is looking at the possibility of closing down more outlets, especially where there are more than one in close proximity, without losing many clients. Efforts are also underway to find new clients and regain the two million that have been lost over the last 2 years.

One major concern to Bennett is the IRS action not to reveal data of taxpayers' refunds and outstanding debts or judgments to tax preparers (also known as the 'debt indicator'). This will affect the cost of refund-backed loans (or rapid refund loans) provided by H&R to taxpayers. These loans have been a major source of revenue for H&R and as such, they intend to intensify efforts to market these loans for the 2011 tax season.